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PRESENTATION

Operator

Good morning, ladies and gentlemen, and thank you for standing by. Welcome to Theratechnologies' earnings conference call for the second quarter of 2018. (Operator Instructions) I would like to remind everyone that this conference call is being recorded today, Thursday, July 5, at 8:30 a.m. Eastern time.

I would now like to turn the conference over to Denis Boucher. Mr. Boucher, please go ahead.

Denis Boucher - *Theratechnologies Inc. - VP of Communications & Corporate Affairs*

Thank you, and welcome. Mr. Luc Tanguay, President and Chief Executive Officer of Theratechnologies; as well as Mr. Philippe Dubuc, Senior Vice President and Chief Financial Officer, will be the speakers on today's call. A Q&A period, open exclusively to financial analysts, will follow their presentation.

Before Luc begins his remarks, I have been asked by Theratechnologies to read the following message regarding forward-looking statements. I would like to remind everyone that Theratechnologies' remarks today contain forward-looking statements about its current and future plans, expectations and intentions, results, levels of activity, performance, goals or achievements or other future events or developments.

In preparing these forward-looking statements, several assumptions were made by Theratechnologies, and there are risks that results actually obtained by the company will differ materially from those statements. As a consequence, the company cannot guarantee that any forward-looking statement will materialize, and you are cautioned not to place undue reliance on them.

Theratechnologies refers current and potential investors to the forward-looking information section of its press release issued this morning and to its Annual Information Form dated February 6, 2018, and the Risk Factors section therein available at www.sedar.com under Theratechnologies' public filings.

Forward-looking statements represent Theratechnologies' expectations as of July 5, 2018. Except as may be required by securities laws, Theratechnologies does not undertake any obligation to update any forward-looking statement whether as a result of new information, future events or otherwise.

I would now like to turn the conference over to Luc.

Luc Tanguay - *Theratechnologies Inc. - President, CEO & Non-Independent Director*

Okay. Thank you, Denis. Good morning, everyone, and thank you for being with us today. Even though we are in the middle of the summer season, we are as busy as ever at Theratechnologies. Of course, Trogarzo is at the center of our continued efforts towards growing sales in the U.S.

It has been 2 months since Trogarzo became commercially available. And as you already know, it did not take long before we started receiving prescriptions. Thanks to the clinical-trial patient who had been put on the extended access program or EAP patients, and then transferred to as a commercial patient, we quickly reached 100 prescription around mid-May. Prescriptions from non-EAP patients are now picking up steam. And in fact, in a few days from now, we will reach 100 non-EAP patients.

For obvious reasons, the selling cycle for Trogarzo is longer than with other class of medication such as oral drugs. From the initial meeting between our sales rep and targeted physician to the actual patient receiving its first infusion of Trogarzo, there is a lag time anywhere between a few weeks and a few months. Nevertheless, I must say that everything is going in the right direction and according to our plan.

So far, our key account managers have met with more than 2,000 physicians. In many cases, physicians have been visited on more than one occasion. This demonstrate the interest for Trogarzo at the physician level. Furthermore, the feedback we get from our sales team is that physicians are very receptive to Trogarzo, and they confirm that they have patients that will be good candidates for Trogarzo.

I'm very pleased with this, as it support the market research data on which we built our strategy and objectives. While it may take some time before those patients visit the physician's office, once patients are seen, they are very likely to be prescribed Trogarzo. That's when the prescription or, what we call, referrals are coming into our call center.

It's also interesting that prescription are not being generated by just a few physicians. In fact, there are almost as many physicians that have recent prescriptions as there are patients. Only a few physician have written for now more than one prescription, which shows a widespread acceptance among physicians treating HIV.

In addition, prescriptions are coming from all over the U.S. and not just from a large center or few U.S. territories. In our earlier market studies, many physicians have mentioned that they wanted to gain clinical experience with one or two patients to get more familiar with the product, and this is exactly what we are seeing now.

Once a prescription is received at our call center, it goes through a triage process to secure, among others, insurance coverage for patients. This takes a relatively short time given that even without set reimbursement policies, an overwhelming number of prescriptions are accepted.

As a matter fact, none had been then definitely rejected. Much of this will not be happening if we had not been able to secure inclusion on public and private payers' formularies.

As we speak, 89%, 8-9 percent, 89% of prescriptions have been triaged, which means that coverage has been confirmed, and that patients have or will soon start treatment. Such early traction can only happen with public and private reimbursement. And in fact, only 4 months after receiving FDA approval, payment policies among private and public insurers addressed 48% of covered lives in the U.S.

We are well on our way to reach our objective to have optimal coverage policies in place for Trogarzo around 6 months after approval. While there are a few steps to go through before a patient is initiated on Trogarzo, all signs are positive, be it at the physician level, at the patient level and at the payer level.

We will keep implementing our strategy, which has been working well so far, and it will bring us where we aim to be. But already, you can appreciate the significant impact of our first month of Trogarzo sales. The -- while they reached just a little over $1 million in Q2, Trogarzo sales made a difference in terms of our EBITDA.

It's obvious that as we record more sales of Trogarzo, our EBITDA will return to positive value very soon. This will also be supported by the early and final payment of obligations related to the repurchase of our commercial rights to EGRIFTA.

The early payment to Serono means that we no longer will record royalties starting in Q3 of this year, which will positively affect our cost of sales and of course, our EBITDA. This was made possible by the round of financing, which closed on June 19. And as you know, we raised USD 57.5 million in convertible notes.

We used $23.85 million to end up our payment obligation with EMD Serono, and the balance will be used to further build our company by preparing for the launch of Trogarzo in Europe and for other general corporate purposes, including potential acquisitions in the execution of our business plans.

This gives me a good opportunity to talk about the latest developments regarding our European expansion. In fact, we still intend to file a marketing authorization application in Europe around the end of Q3 or at the beginning of Q4. Everything is in place to reach that objective.

We are also progressing very well with the establishment of our commercial operation in Europe, and we will report on our progress in the coming months.

On a final note, I want to mention that EGRIFTA sales are still growing, and we had our best second quarter ever for EGRIFTA, even if the exchange rate was not favorable. Even though EGRIFTA could soon become our second most important product in terms of sales, we are not -- we shall not lose sight of what this product represents for the company, as it basically pays for our entire operations.

As we build the Trogarzo franchise, EGRIFTA will remain among our priorities and ensure that we maximize its potential in the U.S. The recent filing of the F4 formulation with the FDA is in line with that vision. This novel, single vial formulation with no cold-chain requirement represents potential to support EGRIFTA sales.

On that note, I will now let Philippe present our results for the second quarter, and I'll come back right after. Philippe?

Philippe Dubuc - *Theratechnologies Inc. - Senior VP & CFO*

Thank you, Luc. Good morning, everyone. I am pleased to report that we recorded our best second quarter ever in terms of sales. Of course, our results benefit from our first sales of Trogarzo. But even without the contribution of our new product, we could have said the same thing about our second quarter.

Consolidated revenue for the second quarter of 2018 increased to more than $12.3 million from $10 million in the same quarter last year. This represents a 23.1% increase.

Net sales of EGRIFTA reached $11.1 million compared to just over $10 million in the same quarter last year, which represents an increase of 11.1%. When looked at in U.S. dollars, sales increased was 16.7%. Indeed, sales rose to close to $8.7 million compared to $7.4 million in U.S. currency.

As for Trogarzo, we recorded sales in the last month of the quarter, as the product only became commercially available on April 30. Trogarzo net sales amounted to close to $1.2 million.

The increase in revenue and stable expenses allowed us to record a negative EBITDA of about $1 million in Q2 compared to a negative EBITDA of almost $3.8 million in the same quarter last year.

When compared to the first quarter of this year, we can appreciate the impact Trogarzo started to have as the EBITDA was then at minus $2 million. Given the introduction of Trogarzo and stable expenses, we should continue to see an improvement in our EBITDA over the next few quarters.

In Q2 2018, cost of sales amounted to just over $2.8 million compared to $2 million for the same period last year. Cost of sales includes cost of goods sold and royalties paid to EMD Serono. Cost of goods stood at a little more than $2 million in Q2 of 2018 compared to $1.2 million in the same quarter last year. Of course, this has to do with higher EGRIFTA sales and the fact that we now have a second product with lower gross margins.

In terms of royalties, they were down by almost half of what they were in Q2 of last year. This is due to the adjustment of the provision for royalties with respect to the agreement that we announced on May 31 regarding the accelerated and final payment of the remainder of our obligations to EMD Serono. More precisely, royalties decreased to $578,000 in Q2 2018 compared to almost $1 million in the same quarter last year. We will no longer record royalties going forward.

Research and development expenses were down substantially in our second quarter of 2018 compared to Q2 of last year. Among other reasons, this is related to the decreased spending for 2 Phase IV clinical trials, which Theratechnologies has now been released from by the FDA. It's also a factor of the exchange rate as most R&D expenses are incurred in U.S. dollars.

Finally, we did not have, as we did last year, expenses related to the production of an EGRIFTA batch destined for the bioequivalence test of the F4 formulation. As a result, R&D expenses decreased to $2.4 million in Q2 2018 compared to almost $3.7 million in Q2 of last year.

Selling and market development expenses amounted to approximately $7.7 million in the last quarter. While this is slightly more than Q2 of last year when those expenses stood at $7.2 million, selling and market development expenses are quite stable compared to Q1 of this year.

General and administrative expenses during our last quarter were also stable compared to the same quarter of last year. In Q2 of this year, they amounted to just over $1.6 million compared to $1.7 million in Q2 of last year.

As for finance costs, they were not, as they were last year, impacted by the fair value of the warrant liability. The last outstanding warrants were exercised in Q3 of 2017. And as a result, finance cost accounted for $368,000 in Q2 this year compared to $4.6 million last year.

The combined impact of no longer being affected by this accounting measure and increased revenues helped to reduce our net loss to $2.46 million or $0.03 per share compared to $9.1 million or $0.12 per share for the same quarter last year.

As Luc mentioned, we expect to return to positive EBITDA values as Trogarzo sales pick up. While we need to invest towards the potential launch of Trogarzo in Europe, this should be more than offset by the increased revenues generated in the United States.

In terms of our financial position, we ended the quarter with more than $24 million in cash and cash equivalents despite having paid our fourth annual payment of USD 4 million to EMD Serono.

And giving the closing on June 19 of the convertible note offering, which gross USD 57.5 million, our cash position will be much stronger at the end of our third quarter, even when taking into account the payment of USD 23.85 million made to EMD Serono for the early and final payment of our remaining obligations linked to the repurchase of our commercial rights to EGRIFTA. As a reminder, we still owed EMD Serono over USD 28 million, thus generating a savings of $4 million.

On that note, let me turn it back to Luc who has some closing remarks.

Luc Tanguay - *Theratechnologies Inc. - President, CEO & Non-Independent Director*

Thank you, Philippe. As you can appreciate, our second quarter was rich in positive events for Theratechnologies. It started with the historical and game-changing approval of Trogarzo. We also recorded our first Trogarzo sales during that period, which could have taken much longer to come in, if we had not been as successful as we had been in obtaining positive decisions from private and public payers.

As far as EGRIFTA, the FDA released Theratechnologies from post-approval commitment, which represents potential saving of almost $13 million over time. Also for EGRIFTA, we filed a submission for the F4 formulation in the U.S., which, if approved, will represent a significant improvement over the current available formulation in terms of convenience, but also in terms of cost of goods sold.

We also continue to prepare for the filing of the marketing authorization application of Trogarzo in Europe and establishing our footprint in that territory.

Finally, we are now free of our obligation related to the repurchase of EGRIFTA. This agreement generate saving, but it will also positively impact our EBITDA as we'll no longer have royalties to pay that we should have otherwise been paying over the next 4 to 5 years.

This was made possible by the round of financing we closed on June 19, and that allowed us to gross USD 57.5 million. As a result, we now have an even stronger cash position with close to CAD 65 million on hand.

In a sense, recent developments will continue to have a positive impact on our company, growing EGRIFTA sales, the introduction of Trogarzo, the potential expansion in Europe, the F4 submission and the round of financing all have the potential to help us realize our game plan.

My goal and the one of everyone here at Theratechnologies is to make sure that we continue to deliver value to our shareholders by reaching our objectives. This is what will keep us busy over the next little while.

So I want to thank you all for being on the call today, and we'll then now take questions from the financial analysts. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Andre Uddin from Mackie Research Capital.

Andre Uddin - *Mackie Research Capital Corporation, Research Division - MD of Healthcare Research*

Just actually had a couple of questions here. Can you just give us an update in terms of your European prelaunch plans? And when you would expect to start building your sales force there as well?

Luc Tanguay - *Theratechnologies Inc. - President, CEO & Non-Independent Director*

Yes. Andre. Yes. As I mentioned in my speech, in Europe, we intend to file our dossier via the EMA around the end of Q3 or at the latest, at the beginning of Q4, which means that it would probably take a year, not more than a year before we get the decision from the authorities. So we want to get prepared in terms of having some people in the field, at least in Europe, get prepared for the launch, probably at the beginning of next year. So we will come back, as I mentioned in my speech, on that, probably in a month or 2.

We are looking at location as we speak and also the kind of setup we want to have there. But you could probably expect that it's going to be pretty similar to what we have in the U.S., meaning, working with third parties and having maybe a small office there, with few people to manage the day-to-day operation. So it will not be a huge infrastructure. We -- it should be quite similar to what we have in North America. And you should have more news in a month or 2. And as I say, nothing really material before the year-end.

Andre Uddin - *Mackie Research Capital Corporation, Research Division - MD of Healthcare Research*

Okay. So I just had a -- this one is a scientific question, so I had -- I don't know if Christian is on the line. But in terms of EGRIFTA, I was just wondering if it's possible to put it into a prefilled syringe? Or would the liquid formulation be too unstable?

Christian Marsolais - *Theratechnologies Inc. - Senior VP & Chief Medical Officer*

Well, in terms of the F4 (inaudible) to do a new formulation is sometimes longer than what the people would think. If you want to put it in prefilled syringes, we would need to do a development and stability data. At the moment, the focus was really to decrease the volume of administration,

ensuring that, that formulation would be stable at room temp. And that would bring significant advantages for the patients. For the rest, we might look at other options after the F4 is approved here.

Operator

(Operator Instructions) Your next question comes from the line of Endri Leno from National Bank.

Endri Leno - *National Bank Financial, Inc., Research Division - Associate*

Congrats on the first sales of Trogarzo. Just a few questions from me. So first, how would you describe payer mix in the expand -- for Trogarzo, that is, in the expanded access program? And what kind of payer mix you are seeing so far?

Luc Tanguay - *Theratechnologies Inc. - President, CEO & Non-Independent Director*

Yes, very interesting question. I don't have the exact number here. But at this point, of course, with a limited number of -- as a sample here, a little bit below 200 patients. But it's 1/3, 1/3, and 1/3. Meaning, it's quite equal between private payers, Medicare and Medicaid. So it's quite similar. Maybe a little bit more for private payers and Medicare and slightly less for Medicaid, but it's pretty much well distributed among those 3.

Endri Leno - *National Bank Financial, Inc., Research Division - Associate*

Great. And would you be able to provide any color in what types of gross to net pricing are you seeing? Is that something along the lines that you're expecting? Or...

Luc Tanguay - *Theratechnologies Inc. - President, CEO & Non-Independent Director*

It's very early because as I said, you don't get feedback from those organizations maybe for another 2 to 3 months before we know exactly what kind of rebates they will ask and so on. But at this point, we're very comfortable with the 70% gross to net. So the numbers that Philippe mentioned this morning, take into account a 70% gross to net. So it's already provisioned that way. So we shouldn't have a negative surprise in that side.

Endri Leno - *National Bank Financial, Inc., Research Division - Associate*

Okay. I have here a question on Trogarzo. Is that -- how do you see the sales and the support teams that you have right now? Are they still optimal or do you think you'll need to make any adjustment there at least for the rest of the year or perhaps early next year?

Luc Tanguay - *Theratechnologies Inc. - President, CEO & Non-Independent Director*

If we do adjustment, it will be minimal. Sometime, it's necessary for example to merge one or two territories together, stuff like that. It's more efficient. But we don't see big entries in the number of sales reps or big decreases. It's, I would say, fine-tuning adjustments with the sales force, seeing -- trying to optimize traveling and stuff like that, but it's minimal. So with the sales force, I'd say, between 32 and 36, we can probably do an optimal job there.

Endri Leno - *National Bank Financial, Inc., Research Division - Associate*

Great. The next question is for EGRIFTA. Would you be able to quantify how much of the sales that you saw year-over-year, how much of the growth was from scripts or new patients and how much was from higher pricing?

Luc Tanguay - *Theratechnologies Inc. - President, CEO & Non-Independent Director*

Philippe?

Philippe Dubuc - *Theratechnologies Inc. - Senior VP & CFO*

Well, about 16.7% increase in U.S. dollars, I would say that most of it is new patients because we increased the price about a year ago by 5% or 6%. So most of it is new patients.

Endri Leno - *National Bank Financial, Inc., Research Division - Associate*

Okay. Great. And next question, EGRIFTA, the F4 formulation. Assuming a timely FDA approval of the sNDA, when would you expect to commercially launch it?

Luc Tanguay - *Theratechnologies Inc. - President, CEO & Non-Independent Director*

Okay. The approval usually for sNDA is 6 months, for the decision, so it's around the end of the year or at the beginning of next year. Of course, we'll have to manage inventory here. So probably -- it's not decided yet. We have to look at the logistic of all of that. But it would probably be maybe 3 to 6 months after -- for the commercial launch of the F4. So mid-year next year is probably a reasonable timing for us. Yes. But we need to manage -- you understand, Endri, that we need to manage the inventory. We don't want to be stuck with 6 or 7 months of the current formulation, so we need to manage that transition.

Endri Leno - *National Bank Financial, Inc., Research Division - Associate*

Great. And last question from me and I'll open the line is that one of the uses of proceeds for your convertible debentures was potential acquisition of new drugs. I was -- or the commercial rights for new drugs. I was wondering if you can comment on a little bit on that on what types of drugs would you consider? And have you -- I mean, what kind of multiples would you expect to see out there? If there you have any color around that; and that's it from me.

Luc Tanguay - *Theratechnologies Inc. - President, CEO & Non-Independent Director*

It's going to be a little early to look at price for those new drugs. But -- and as you know, we're quite efficient on that. We want to pay as less as possible. But as I mentioned in the last, I would say, 6 months to everyone, what we're looking is products that are much smaller product in the field of HIV. It's products that are already commercialized, and that will fit well in the current portfolio of the actual sales force. So we don't want to buy, at this point, product that will imply to increase significantly the sales force. We want -- in fact, we want to optimize the infrastructure we have at this point in the U.S., and of course, the one we will probably implement next year in Europe. So it's very much and very in line with what we have mentioned in the last 6 months. No news on that side. So it's a much smaller product than Trogarzo.

Operator

Your next question comes from the line of Doug Loe from Echelon Wealth Partners.

Douglas W. Loe - *Echelon Wealth Partners Inc., Research Division - Healthcare and Biotechnology Analyst*

So the questions on EGRIFTA that Endri was asking just triggered in my mind just to follow-up on pending clinician-sponsored studies for EGRIFTA that have been kind of focused on fatty liver diseases, both in HIV and non-HIV patients and peripheral nerve damage and some interesting stuff in cognition. Just -- I was wondering if you, as a corporation, have sort of contemplated even at a rudimentary level, whether those would be indications that you might target for commercial applications? Or are you sort of adopting a wait-and-see approach for that until data is available from clinical collaborators?

Luc Tanguay - *Theratechnologies Inc. - President, CEO & Non-Independent Director*

I'll let Christian answer to where we stand with those studies at this point, and I'll come back on the -- what will be our game plan after that.

Christian Marsolais - *Theratechnologies Inc. - Senior VP & Chief Medical Officer*

The study for markings in impairment in HIV patients just started, and they are recruiting patients. And this one will be ongoing probably for 2 years or a bit more before we could see the results. The study where the recruitment has been completed is the study of NAFLD NASH that is led by Dr. Steven Grinspoon from Harvard. As you know, and what's mentioned in previous call, the recruitment is completed. And the study of the last patient in after 1 year of treatment should occur at the end of this year. Then we're expecting results at the beginning of next year.

Luc Tanguay - *Theratechnologies Inc. - President, CEO & Non-Independent Director*

And as far as we're concerned with those studies, we don't intend at this point to launch on our side a similar study. And in fact, the strategy with all those studies for us are to make those key opinion leaders publish on EGRIFTA, which help us on one end to -- with the sales rep and the [MS] sales to talk about EGRIFTA and to add credibility to that drug. That's the main purpose of this plan. If something fantastic will come out of it, then we'll reevaluate. But at this point, taking into consideration the IP of this product, I'll be very surprised that we launch -- we get in new clinical trials with it. Yes.

Douglas W. Loe - *Echelon Wealth Partners Inc., Research Division - Healthcare and Biotechnology Analyst*

Okay. Yes, that's reasonable. And then shifting back to Trogarzo, I mean, you've -- yes, your commercial experience with -- it has lasted all of 2 months. So it's difficult to establish any longer-term trends here. But a couple of things I wanted to focus on. One was -- I was just wondering how much of the early patients who have become Trogarzo adopters are patients for whom physicians are switching from Fuzeon or if most of the early patients are Fuzeon-naïve?

And I'll just ask the next question, so you can respond to both. I mean, as you know, there are some fairly broad estimates of how large the multidrug resistant HIV-1 infection prevalence level is in the U.S. It kind of ranges from 10,000 to 25,000, 30,000 patients on drug. Based on -- you reach out with your medical liaison officers and some of your commercial physician reach out here, I was just wondering how -- if you have any more hard data on just how that market's being defined by your target market and just over what range do you think that disease prevalence actually is? And I'll leave it there.

Christian Marsolais - *Theratechnologies Inc. - Senior VP & Chief Medical Officer*

Maybe I'll just start with the MSL. I think that the good thing about Trogarzo in terms of the KOLs, it's opening the doors to new physicians. Then we can seal up more IDs that we didn't have before that are treating a significant number of physician. Then that will also open the door to a discussion with EGRIFTA with those physicians.

In terms of the prevalence, what we're seeing is most physicians when we're asking them, number of patients with limited options. They all have few patients that have limited options. And they know that some of the patients will be failing in the coming year, then they're very open to the discussion with Trogarzo and to understand the drug better with all of the advantages in terms of no drug/drug interaction, which is something which is really important for advanced patients that are taking a number of other drugs.

Luc Tanguay - *Theratechnologies Inc. - President, CEO & Non-Independent Director*

What I like, Doug, with what we're seeing in the market at this time, is if you remember, a year, a little bit more than a year ago, we did an Investor Day where we presented a lot of our market research. And everything is in line with that at this point in terms of potential number of patients, the reaction of the physician and so on. And as I mentioned to all the analysts, including you, in the last few quarters, we were all expecting a gradual pickup in sales. That's normal for an end use product.

But what I like is the lead indicator or the precursor we're seeing at this point, the number of physician that have been visited and asking to see again our sales rep. It's very positive because they have definitely interest into this new drug, and that they definitely identify some of the patients. Patient, as you know, are very positive on that product. And what is even better than what we thought is the reaction of payers. At this point, to have Kaiser in the already -- being on the policy of Kaiser. Same thing with California Medicaid with a lot of private payers. In fact, we're ahead of what we thought.

So all the lead indicators are very positive, and we just wait for the sales to pick up, but it's very normal. The sales cycle of that product is much longer than an oral drug. But everything is pointing in the right direction at this point.

Operator

There are no further questions at this time. I'll turn the call back over to the presenters.

Denis Boucher - *Theratechnologies Inc. - VP of Communications & Corporate Affairs*

Thank you very much. As there are no additional questions at this time, we will conclude today's conference call. On behalf of everyone here at Theratechnologies, I would like to thank you for being on the call today. Have a great day.

Operator

This concludes today's conference call. You may now disconnect.
