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TH.TO - Q2 2019 Theratechnologies Inc Earnings Call

EVENT DATE/TIME: JULY 11, 2019 / 12:30PM GMT

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and thank you for standing by. Welcome to this Theratechnologies Conference Call. (Operator Instructions)

I would like to remind everyone that this conference call is being recorded today, July 11, 2019, at 8:30 a.m. Eastern time.

I would now like to turn the conference over to Mr. Denis Boucher, Vice President, Communications and Corporate Affairs. Mr. Boucher, please go ahead.

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

Thank you very much. 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 management's discussion and analysis issued this morning and to its Annual Information Form dated February 20, 2019, and the Risk Factors section therein available at www.sedar.com under Theratechnologies' public filings.

Forward-looking statements represent Theratechnologies' expectations as of July 11, 2019. 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*

Thank you, Denis. Good morning, everyone, and thank you for being on the call today.

Summer is finally here, but it certainly won't be a slow season for us. We have many errands on the fire, and each and every one of them represents an important piece of what we want to accomplish for this company. May I remind you that our vision and our goal are to become a significant player in the pharmaceutical industry by making a difference in the life of patients with special medical needs. Of course, the cornerstone towards achieving this vision is in the short-term, to make the most of what EGRIFTA and Trogarzo have to give in terms of sales.

In Q2, our sales were up substantially compared to the same quarter last year, thanks to the increasing contribution of Trogarzo to our revenue. In fact, we have reached $15.6 million in sales in the last quarter, up from $9.6 million for the same quarter last year, representing over 60% growth.

So I'd like to talk first about Trogarzo. Last quarter, sales of Trogarzo increased by 13.6% from the previous quarter. Things are evolving quite well for Trogarzo as net sales in June were in line with those of EGRIFTA. We are happy to have reached this milestone. More importantly, sales of Trogarzo have kept gaining momentum recently. In fact, sales for the first 5 weeks of Q3 are over 20% higher than those of the first 5 weeks of Q2 2019. More than ever, we are convinced that peak sales of Trogarzo in the U.S. alone could at least be 5x the current sales of EGRIFTA. This has been our target from the start, and a year after launch, it still is.

To ensure that we reach this other ambitious objective, we are constantly implementing new initiatives. For example, we started a direct-to-consumer campaign in 2 key region in the U.S., and that could eventually be expanded. We have revamped our product websites and have hired key account managers in key markets. We are actively building relationship with patient association across the U.S. We will be represented at the next AIDS Walk in San Francisco, and we have refined our messaging to align it with the overarching goal of bringing viral loads to undetectable level. We believe that these initiatives, along many others, will continue to generate momentum from Trogarzo in the U.S.

Of course, we shall not forget about Europe. As you know, we are just a few weeks away from our recommendation from the CHMP for Trogarzo. If positive, it should pave the way for an approval by the European Union. Once approved, we'll be ready to launch within a few months in Germany, which is one of the main markets in terms of patient population, but also in terms of setting the price point for Trogarzo elsewhere in Europe.

As I said before, Europe represents a sizable market, and we have been working diligently for the last few months in order to build a strong dossier supporting the best pricing possible. Once we have launched in Germany, we'll turn our attention to other -- the other 4 most important market, namely France, Italy, Spain and the U.K. These markets should be coming online towards the end of 2020.

We now have the key people in place to prepare the market prior to an approval by the European Union. Our recent interaction with key opinion leader as well as the market study we commissioned confirmed our earlier expectation that Europe will represent the market approximately half the size of the U.S. I think anyone would be hard pressed not to be excited about the future of Trogarzo. Already, it is having a profound impact on our company, but we are more than ever confident that it will be the game-changer that we felt it would be for Theratechnologies in due course based on the fact that we have made and keep making the right moves. Of course, unlike many other thing in life, success come when you remain focused on the task at hand and show patience.

Moving to EGRIFTA now. We are just a few months away from the launch of EGRIFTA SV, a new and more user-friendly formulation. In fact, we expect to launch this exciting new product in the U.S. at the end of September. Given the product features, we think that it will help to give renewed interest in EGRIFTA. As you know, when we regained commercial rights to EGRIFTA, the goal was to generate leverage to bring Theratechnologies to the next level. This is exactly what happened, but this is far from maybe end of the story. As you know, we just announced our intention to develop a new and patented formulation of EGRIFTA for an indication in HIV patient with NASH. Our decision became fairly obvious once data from a study conducted by Dr.Steve Grinspoon of the MGH was released. The effect of tesamorelin on liver fat and liver fibrosis is significant. Tesamorelin reduced liver fat by 37% compared to placebo. It was also shown that 35% of the patients returned to normal liver fat value compared to only 5% in the placebo group, and both results were pretty significant. Furthermore, only 10.5% of tesamorelin patient experienced progression of liver fibrosis compared to 37.5% in patient receiving a placebo, a result which was also statistically significant even if the number of patient was relatively limited. This clearly shows that tesamorelin is a serious contender to become a promising option for the treatment of NASH in HIV patients.

EGRIFTA is the only product in late-stage development for the treatment of NASH in HIV patient. And in addition, we have accumulated several years of actual clinical experience with tesamorelin in close to 6,500 patients. In fact, our product was deemed to be safe enough for the FDA to lift post-approval commitments and post when it approved EGRIFTA.

Based on our preliminary market research, we estimate that this new indication could target anywhere between 100,000 to 300,000 patients in the U.S. only. And we also estimate that this could represent for us a market potential that could generate sales to 8x higher than the current indication of EGRIFTA. Further market research is ongoing. But already, you can appreciate the massive potential it holds for EGRIFTA.

As for the non-HIV market, we will make a decision by year-end. The non-HIV market may seems like an obvious choice because of its size, but we must make -- take many factors into consideration. Among them, we must consider the competition, the product profile, the test of development and reflect on the potential partnership for this particular indication. We need to answer these questions and that's why we need a little bit more time to establish our approach in that market segment.

In HIV patient, though, the situation is quite different given that the product is already marketed for lipodystrophy in HIV patient, it will not require to research a large Phase III trial, and tesamorelin is the only product in late-stage development for NASH in HIV patient. In addition, NASH-HIV could become the entry, though, for EGRIFTA in Europe, which could be yet another significant growth generator for Theratechnologies.

In conclusion, this is a great opportunity for Theratechnologies. The reward could be significant in the fairly short term as this is not a 10-year development program.

But to give you even more reason to be excited about Theratechnologies, let me come back on the unique oncology treatment platform. While huge progress has been made in the treatment of various form of cancers, a lot remains to be done in terms of efficacy and tolerability. Existing cancer treatments are notorious for their less-than-desirable side effect. This is where our targeted oncology platform comes in. Currently, existing treatment can be compared to carpet bombing, which, in the process of reaching the villain, also attack the innocent. Our technology could potentially change this by using a peptide that could ensure that cancer cells are targeted, while healthy cells are left alone. In vitro and in vivo that are released at ASCO demonstrated just how much potential there is in this new approach to cancer treatment. The beauty of it all is that we use already approved anti-cancer agent to attach to our peptide technology. This means that rather than developing completely new investigational agents, like a gene therapy or immunotherapy, we are working on making already effective agents even better in terms of efficacy and safety. Our goal is to initiate a clinical trial in 2020 and to complete the proof-of-concept in patients in the second half of 2021, which is just around the corner. I believe that you can appreciate just how much and how quickly things are changing for the better at Theratechnologies. And this is a sign of our focus on the task at hand and our commitment to deliver on our vision.

So on that note, I will now let Philippe present our results, and I'll come back after for a few closing remarks.

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

Thank you, Luc, and good morning, everyone. As Luc had just mentioned, our second quarter results are again setting a new record for us. Our second quarter consolidated revenues were up 63% compared to the same quarter last year, and it reached USD 15.6 million.

Looking at sales by product. EGRIFTA net sales were $8.6 million, basically unchanged from Q2 of last year. One of the reasons for this was a shift in patient mix towards more publicly insured patients that in -- than in the same period last year. And as you know, we offered greater rebates to these payers. EGRIFTA sales are expected to resume growing in the latter part of this year as we launch EGRIFTA SV, which we used to refer to as the F4 formulation.

Increased compliance and adherence are expected with EGRIFTA SV due to the products more patient-friendly attributes. Also as EGRIFTA SV is considered a new product by public payers in the U.S., rebates for these groups will be reset and renegotiated before launch. In practice, this means that our rebates offered, which, in some cases reached 80%, will be reduced substantially. This is important since a growing number of EGRIFTA patients are currently eligible for rebates.

As for Trogarzo, unit sales were up 14.5% and reached $7 million in the second quarter of 2019, up 13% in dollar terms from the first quarter of 2019 and compared to $924,000 for the second quarter of last year. Reaching this level of sales has triggered the first commercial milestone, having reached $20 million over the past 4 quarters. As such, we will be paying the first half of the $7 million milestone or $3.5 million in the coming days to TaiMed.

Given all the recent efforts and the activities that we are launching, we expect that sales will keep growing strongly in the future. Again, as Luc mentioned, unit sales to pharmacies for the first 5 weeks of Q3 showed strong growth of over 20% over the first 5 weeks of Q2 2019.

Cost of goods sold in the second quarter of 2019 amounted to $5.4 million, up from $1.6 million for the same quarter last year. This is due in large part to the introduction of Trogarzo and to overall increased sales in the U.S.

As for R&D expenses, they increased to $2.6 million in Q2 2019 compared to $1.9 million for the same quarter last year. The increase is largely due to regulatory and prelaunch activities in Europe, which are mostly nonrecurring as well as our increased activity due to our acquisition of Katana Biopharma in February of this year. Again, the FDA's decision to release Theratechnologies from the EGRIFTA post-approval commitments helped to offset the increase.

Selling and market development expenses increased to $7 million compared to $6 million last year. This is a reflection of increased activities in the United States and Europe.

General and administrative expenses grew to $1.8 million in the second quarter of 2019 compared to $1.3 million for the same quarter last year. Again, the increase comes as a result of our growing presence in Europe.

We recorded a positive adjusted EBITDA of $453,000 in Q2 2019 compared to a negative adjusted EBITDA of $819,000 in Q2 of 2018. Of course, our EBITDA is being impacted by the investments being made on several fronts, including the preparation work in Europe, the preparation for the launch of EGRIFTA SV and the development of the oncology platform.

In Q2 2019, finance cost came to $1.45 million compared to $283,000 in Q2 2018. Most of the increase is associated with the interest on the convertible notes, which were issued in June 2018. Finance costs were somewhat offset by finance income of $292,000 due to the higher cash and cash equivalents balances for the quarter.

For the second quarter of 2019, we recorded a net loss of $3.2 million or $0.04 per share compared to a net loss of $1.9 million or $0.03 per share for the same period last year.

While our operations were largely breakeven in terms of cash used for the quarter, a combination of higher receivables and inventories, coupled with a decrease in our accounts payable, contributed to the use of $10 million in the quarter. Higher receivables were related to higher sales, but also to the timing of orders within the quarter. Higher inventories are again related to higher sales activity, but also to inventory buildup in preparation for the launch of EGRIFTA SV, while lower payables are mostly related to the timing of various payments to suppliers. We consider this level of change in working capital as being exceptional and expect more normal variations going forward.

Our financial positions remain strong with $43 million in cash and bonds at the end of the second quarter.

And before I turn it over to Luc for some closing remarks, I would like to announce that our Board has formally authorized management to prepare and file an application to list our shares on NASDAQ. A listing on a U.S.-based exchange will help us gain wider recognition, increase the liquidity of our stock, expand our shareholder base and better reflect the value of Theratechnologies. My team and I are actively working on the required documentation, and we expect to file the application within the next few weeks.

Luc?

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

Thank you, Philippe. As you can appreciate, our company keeps going in the right direction, with sales moving up and several initiatives that are designed to support our growth. The bottom line is that we have a company built on solid footings with a potential to grow rapidly in the short, mid- and long term. In the short term, Trogarzo keeps gathering momentum, while EGRIFTA should get renewed interest with the launch of EGRIFTA SV early in the fall. Europe also hold great potential for Trogarzo. And if we receive an approval around the end of September, we should be in a position to start recording sales in Germany by the end of this year. Over the mid- and long term, the slow-push version of Trogarzo, the NASH indication for EGRIFTA and our oncology platform represent huge opportunities that could bring us to the level we envision for this company.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Brian Abrahams from RBC Capital Markets.

Brian Corey Abrahams - *RBC Capital Markets, LLC, Research Division - Senior Analyst*

On the Trogarzo in Europe, I guess, first on the regulatory side, can you talk about where you stand with respect to the registry there, your confidence you'll have sufficient sites and patient numbers and whether or not you might expect oral arguments prior to CHMP decision? And then maybe on the commercial front, it sounds like there could be a potentially robust opportunity based on your latest market research. I was wondering if you could drill down a little bit more in terms of your expectations for what you're learning about that treatment -- what the treatment dynamic can look like in Europe and maybe some of the similarities and differences to the U.S.

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

Okay. So I have few of my colleagues in the room with me, so Jovan for commercial and Christian for medical. So I'll ask Christian to answer the question on the regulatory.

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

Yes, Brian. The -- regarding the regulatory for Trogarzo in Europe is going very well. As for any file, we had a number of questions. Those questions were addressed. We recently also announced that we're taking more time to address some of the questions, and we're quite confident in our responses that we have put forward for EMA. And we're expecting responses towards the end of July on the file.

Jovan Antunovic - *Theratechnologies Inc. - Senior VP & Chief Commercial Officer*

On the commercial side, what we see is that from the research of that actual market size, it's similar to the United States. We also see similarity in some of the markets. For example, Germany is structured in a similar way to the U.S., whereby the mix of hospital usage as well as community usage, whereas the other markets are more hospital-based. One thing of interest is that although we have not launched in Europe yet, we have quite a high awareness to the drug already and that is going to grow as we get the approval and move to more commercial activities once we get approved.

Brian Corey Abrahams - *RBC Capital Markets, LLC, Research Division - Senior Analyst*

Got it. That's really helpful. And then I was wondering if you could maybe -- shifting gears to Trogarzo in the U.S. launch and uptake, can you talk a bit about maybe the breadth of the prescribing base, how that's evolving and how the DTC campaign might potentially impact adoption patterns? Do you think those -- sort of the data you presented on those -- the latest 5 weeks and some of the uptick you're seeing there, is that -- do you think that's pulled through from the DTC campaign? Any other early signals you can speak off from that?

Jovan Antunovic - *Theratechnologies Inc. - Senior VP & Chief Commercial Officer*

It's fairly difficult to get the impact measured as quickly as that from the placebo. We are getting quite a bit of qualitative feedback from the field about the positive impact that we're having on the -- as a result of the placebo on both EGRIFTA and Trogarzo. So we're still very early in this DTC, and we will get results moving forward. But we're very optimistic that it will have an impact on our ability to accelerate Trogarzo and EGRIFTA.

Operator

(Operator Instructions) Your next 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 wanted to ask when do you expect to meet with the FDA to discuss your pivotal trial. And also, will you need to do an FDA bioequivalency trial with EGRIFTA?

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

Andre, I will address your question, but I needed clarification for the second one. You're asking for a bioequivalence. Can you clarify that part of the question?

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

Just wanted to see if you actually have to do any bioequivalent study with your FDA formulation?

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

Okay, okay. Maybe I'll start with the FDA, yes, we're working on this at the moment. And it's progressing very well. Then we will have to do a bioequivalence, similar as the one we have done for the F4. It is pretty similar in terms of volume of administration versus what we have done between the F1 and the F4. Therefore, we're quite confident that we'll be able to demonstrate bioequivalence.

For the NASH, the file is progressing extremely well. We're working with regulatory consultant. We're working with physicians with expertise in the field of NASH. And we're planning to meet with the FDA and EMA because we'd like to have one global plan for U.S. and for Europe towards the end of this year. But the file is moving extremely well.

Operator

There are no further questions. At this time, I'll turn the call back over to management for closing remarks.

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

Well, thank you very much. I want to thank everyone for being on the call today. If there are no further questions at this time, we will conclude today's conference call. Hope you have a great day and a great summer. Thank you very much. Buh-bye.

Operator

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