THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

DEPO - Q1 2017 Depomed Inc Earnings Call

EVENT DATE/TIME: MAY 09, 2017 / 8:30PM GMT

CORPORATE PARTICIPANTS

Arthur Joseph Higgins *Depomed, Inc. - CEO, President and Director*

August J. Moretti *Depomed, Inc. - CFO and SVP*

Christopher S. Keenan *Depomed, Inc. - VP of IR and Corporate Communications*

CONFERENCE CALL PARTICIPANTS

Ami Fadia *UBS Investment Bank, Research Division - Director and Equity Research Analyst*

Randall S. Stanicky *RBC Capital Markets, LLC, Research Division - MD of Global Equity Research and Lead Analyst*

Sameer Singh *Piper Jaffray Companies, Research Division - Research Analyst*

PRESENTATION

Operator

Good afternoon, and welcome to the Depomed's First Quarter Fiscal Year 2017 Financial Results Conference Call. Please note that this event is being recorded.

I would now like to turn the conference over to Christopher Keenan, Vice President of Investor Relations. Please go ahead.

Christopher S. Keenan - *Depomed, Inc. - VP of IR and Corporate Communications*

Thank you, operator. Before we begin, I'd like to apologize for the technical difficulties that we just experienced.

Good afternoon, and welcome to our investor conference call to discuss Depomed's first quarter 2017 financial results announced earlier today. The press release covering our earnings for this period is now available on the Investor page of our website at depomed.com.

With me today are Arthur Higgins, President and Chief Executive Officer of Depomed; August Moretti, Senior Vice President and Chief Financial Officer; Matt Gosling, Senior Vice President and General Counsel; and Jack Anders, Vice President of Finance.

I would like to remind you that the matters discussed on this call contain forward-looking statements that involve risks and uncertainties, including those relating to the commercialization of NUCYNTA, NUCYNTA ER, Gralise, Cambia, Lazanda and Zipsor; the company's financial outlook for 2017; development plans and expectations for cebranopadol; and other statements that are not historical facts. Actual results may differ materially from the results predicted, and reported results should not be considered an indication of future performance. These and other risks are more fully described in the Risks Factor section and other sections of our Annual Report on Form 10-K for the year ended December 31, 2016, and our quarterly report on Form 10-Q that we expect to file later this week with the SEC. Depomed disclaims any obligation to update or revise any forward-looking statements made on this call as a result of new information or future developments. Depomed's policy is to provide financial guidance and guidance on corporate goals for the current fiscal year and to provide update or reconfirm its guidance only by issuing a press release or filing updated guidance with the SEC in a publicly accessible document. References to current cash, cash equivalents and investments are based on balances as of March 31, 2017.

All guidance, including that related to the company's expected total product revenues, operating expenses, adjusted non-GAAP earnings and nonadjusted EBITDA is out as of today, May 9, 2017.

I'll turn the call over now to Arthur Higgins.

(technical difficulty)

I have to turn the call over to Arthur Higgins.

Arthur Joseph Higgins - *Depomed, Inc. - CEO, President and Director*

Thanks, Chris, and thanks to all of you for joining us on the call today.

I'm looking forward to meeting many of you personally in the coming weeks and months. As you know, I recently joined Depomed as President and CEO, and I'm very excited and energized to have the opportunity to lead the company into its next phase of growth. I have over 35 years of experience in the pharmaceutical industry, including executive leadership positions at Abbott, where I served as the President of its pharmaceutical division; the CEO at Enzon Pharmaceuticals; and Chairman of Bayer HealthCare, where, among my other achievements, I helped rebuild its pharmaceutical business and oversaw the launch of its blockbuster drug, Xarelto. Since leaving Bayer, I served as the senior adviser to Blackstone and its health care products practice. In addition, having recently served in the board of Endo Pharmaceuticals, I'm very familiar with both the pain and neurology markets. Through my extensive experience, I have shown a track record of finding opportunities in challenging situations and in creating shareholder value. This is exactly what I'm here to do at Depomed.

Let me start by reviewing details of the first quarter then move on to the actions we have taken and detail the plans we will put in place to stabilize and then grow the business. Augie will then cover our first quarter financial results and provide our new 2017 guidance, after which I will open the call up to questions.

As you will have noted, the company's first quarter results fell well short of our expectations. While I've only been in the role for a little over a month, I am pleased to report that as a team, we've been able to quickly diagnose the issues behind this disappointing performance and more importantly, are acting decisively to address these issues. Our initiatives will have an impact in the coming quarters as we stabilize the business and look to exit the year well positioned to drive sustainable long-term growth and shareholder value.

Let me start with the reasons behind our recent performance, which are primarily two-fold: first, challenging and changing market conditions, especially in the pain market; and secondly, a highly disruptive sales force realignment that was implemented in early February, which negatively impacted our sales force execution across all of our products.

First, the market. As you're aware, in March 2016, the CDC announced guidelines for primary care physician prescribing of opioids. It is clear to us, though that these guidelines have resulted in a more significant decline in the opioid market than we projected, both in terms of fewer prescriptions and lower daily doses. Specifically, these pressures have resulted in year-over-year decreases of 9% in the long-acting opioid market and 8% in the short-acting market. Furthermore, in both of these markets, primary care physicians are the fastest-declining prescriber base, with their long-acting prescriptions down 14% year-over-year and their short-acting down 10% year-over-year.

It is important, however, to note that despite these significant market headwinds, we were able to grow NUCYNTA ER 1,200 basis points above the market and NUCYNTA IR 400 basis points. This is an illustration of how these products are valued in the market.

Of course, we're not projecting that market conditions will improve in the short term. We remain confident that, over time, the pendulum will shift back to more appropriate focus on the vast majority of patients that are using opioid responsibly and rely on them for effective pain control. With differentiated products in NUCYNTA ER and IR, each with lengthy periods of exclusivity, as a company, we are uniquely positioned to benefit from this ultimate recovery.

Secondly, our sales force realignment. As you recall from the company's last earnings call, we implemented a new strategy to alter the configuration and detail in priorities in our pain, neurology and oncology field forces. This change was designed to primarily increase the support and growth of NUCYNTA IR in primary care, and we expect to have a spillover effect onto NUCYNTA ER. It was also assumed we could expand our pain sales force from 182 representatives to 258 by decreasing the field resources behind our non-NUCYNTA portfolio by approximately half, and that we could do this without impacting sales in these products. It has become readily apparent that the decision to significantly expand our reach with NUCYNTA IR into primary care physicians in the face of their increasing reluctance to prescribe opioids was misguided. We also found that the

shifting of resources and focus away from our non-NUCYNTA portfolio was negatively impacting their performance to a significantly higher degree than we had expected.

Furthermore, the sales force alignment was highly disruptive, impacting every sales force, every sales representative and every product. As a result, 55% of our prescribing doctors where reassigned to a different sales representative during the first quarter. This severe disruption led us to not achieve the same level of historical performance across our product range.

Based on our first quarter results and a frank, comprehensive internal assessment, we have learned some hard but valuable lessons and are moving decisively to take corrective action. We are implementing the following initiatives that are in line with an evolving marketplace and aimed at optimizing the promotion of our products.

Let me review these initiatives in detail.

For the pain sales force that we increased from 182 to 258, we can adequately cover pain specialists. We will expand most selectively into the primary care physician's base, with an emphasis still on NUCYNTA ER. We are in the process of modifying our co-plan targets. These adjustments will result in an even deeper reach and frequency to the pain specialists. We are now seeing more and more patients refer to them by primary care physicians. At the same time, we will be much more selective in our coverage of the primary care audience, focusing on those decision that act as de facto pain specialists within their communities.

The pain team will also return to its key realignment detailing mix of NUCYNTA ER, NUCYNTA IR and with Zipsor as a sample drug. Gralise, which is currently in a third call position and, to be frank, getting minimal support within the pain team, will be reassigned to the neurology force. These moves effectively align our pain sales force with the right detailing priorities and ensure that they're calling on their highest potential prescribers.

For the neurology sales force, you'll recall that we significantly reduced the team to 40 reps and have them detailing Cambia, NUCYNTA IR and Zipsor. It has become readily apparent that these cuts were too deep and the product mix too diverse for such a small team. We intend to increase the neurology sales force to 60.

Additionally, the neurology team will focus on 2 products only: Gralise and Cambia, which are both promotionally sensitive products.

Lastly, recognizing the significant deterioration within the fentanyl market, the company will stop promoting Lazanda to our field force. There are currently 20 headcount in the oncology sales force, and those headcount will be reallocated to the neurology sales force as part of the increase I just discussed to support Cambia and Gralise.

Though we are confident the steps we are now taking are the right ones, it will take some time to see their impact. As such, we see the next couple of quarters as stabilizing but expect to exit the year well positioned and growing.

Moving off to commercial update. Our revised guidance also includes actions today to streamline our headquarters' organization so that we better reflect our new business reality. In total, we will reduce our headquarters' headcount by 30 people or approximately 20%. The net savings from these reductions on an annualized basis are approximately $7 million to $9 million, and the onetime costs associated with the reduction of force are estimated at approximately $5 million. Importantly, this reduction does not affect our overall sales force headcount.

As you can imagine, this is not an easy process, but we believe that it's the right thing to do for the business.

I would like to sincerely thank each of these employees for their contributions to Depomed and wish them best in their future endeavors.

I also want to touch on cebranopadol. In light of the changing opioid landscape, the company is exploring ways to improve its differentiated profile by potential modifications to its development program prior to entering into Phase III trials, which we now anticipate will begin in late 2018.

Before turning things over to Augie, I want to reiterate we are disappointed by the first quarter but are acting with a sense of urgency that our shareholders should expect and with the clear objective of returning our business to growth as quickly as possible.

Let me now hand over to Augie who will give you greater color on our Q1 financials and our full year outlook.

August J. Moretti - *Depomed, Inc. - CFO and SVP*

Thank you, Arthur. Today, I'll first review our first quarter results followed by our updated 2017 guidance.

I want to mention at the outset that with respect to our first quarter results and our updated 2017 guidance, I will be discussing certain GAAP measurements as well as certain non-GAAP measurements, which we expect to continue to present in future periods. Please refer to today's press release for an explanation of our non-GAAP financial measures and tables that reconcile the company's non-GAAP measures to GAAP measures.

Also, I want to mention that our earnings release reflects our new methodology that we adopted earlier this year for presenting adjusted non-GAAP earnings in accordance with SEC guidance issued in 2016.

As Arthur just outlined, the first quarter was disappointing. Total GAAP revenues for the quarter ended March 31, 2017 were $90 million. GAAP product revenues reflect a onetime charge of $4.7 million for a dispute with the PBM over rebates relating to NUCYNTA ER, NUCYNTA and Gralise. Excluding this onetime item, non-GAAP revenues were $95 million.

The dispute relates back to 2014-2015 and the first half of 2016. We do not believe the amounts in question are valid rebatable claims. As a result of further communications with the PBM during the first quarter of 2017, it became clear that not paying the disputed amount would adversely impact the company's ability to maintain a favorable position on the PBM's formulary. Accordingly, despite our belief that the claims in dispute are invalid, we intend to comply with the PBM's demands to pay the disputed amounts and to seek arbitration. However, we have increased our reserve against this matter by $4.7 million, and this is an offset to net sales for the quarter. If we resolve this matter for less than this amount, we will reverse some or all of the reserve in the future.

Starting with NUCYNTA. For the quarter, total NUCYNTA sales were $60.7 million. This was down from $69.4 million in Q1 2016 and down from $74.7 million in Q4 2016.

The disruption in our sales force resulting from our February 1 realignment impacted both brands. Total NUCYNTA ER prescriptions for Q1 were 83,000, an increase of 3% from Q1 2016 against a 9% decline year-over-year in the long-acting opioid market.

Total NUCYNTA IR prescriptions were 116,000 in Q1 2017, a decrease of 4% from Q1 2016 against an 8% decline year-over-year in the short-acting opioid market.

The rest of our products also delivered disappointing performances in the first quarter. Gralise first quarter net sales were $19 million, approximately flat to the $19 million in Q1 2016. Prescriptions in the quarter were less than in Q1 2016, and performance reflects unit price increases.

As Arthur mentioned, Gralise was a third call product in the pain sales force after our February 1 realignment and suffered as a result. We had reassigned Gralise to the neuro sales force.

Cambia had first quarter net sales of $7 million, up from $6 million in Q1 2016. Prescriptions in the quarter were less than in Q1 2016, and the increase in net sales is the result of unit price increases.

Lazanda had first quarter net sales of $3.9 million, a decrease from $4.6 million in Q1 2016. The fentanyl market has declined more than 40% in Q1 2017 on a year-over-year basis, and this has had a dramatic impact on Lazanda. This impact led to the strategic decision announced today regarding the oncology sales force.

Zipsor first quarter sales were $4.7 million, a decrease from $5.5 million in Q1 2016. As Arthur mentioned, Zipsor has been moved from the neurology to the pain sales force.

Days on hand at wholesalers decreased approximately 4 to 5 days from the end of 2016, ending the quarter at approximately 23 days. We believe wholesalers can operate at lower levels, and thus, we expect days on hand to continue to drop during the year to the range of 17 to 19 days on hand on our faster-moving products. With days on hand increasing back to approximately 3 weeks at 12/31/17 because of the holidays and seasonal buying habits. We estimate that days on hand at 12/31/17 will be approximately 7 days lower than at year-end 2016, and this will have a negative impact on net sales for 2017 of approximately $7 million to $8 million. This expected impact is reflected in our guidance.

Cost of goods for our portfolio in Q1 2017 was approximately 19% of non-GAAP revenue. This is 1 percentage point higher than Q4 2016 as a result of product mix. As most of you on the call know, COGS for NUCYNTA is approximately 25% of net sales, and COGS for the rest of the portfolio is approximately 10%.

Turning to our expenses. GAAP selling, general and administrative expense were $48.5 million for the first quarter of 2017. These expenses include $3.4 million associated with the branded pharmaceutical drug fee, offset by a reduction in our contingent consideration for acquired products of approximately $5 million. I'll expand on both of these items.

First, the branded prescription drug fee. The company is responsible for the annual branded prescription drug fee imposed under the Affordable Care Act relating to net sales of the NUCYNTA franchise effective April 2015, which is when we closed the acquisition. Based on the company's past experience with acquired products, the company assumed that the fee would be calculated based on the company's sales to government entities, and we filed paperwork with the IRS to this effect. In March 2017, the IRS notified us that the fee for periods prior to the transfer of the NUCYNTA national drug code from J&J, which we expect to occur in the third quarter of 2017, will be calculated at the higher rates applicable to J&J's sales to government entities. As a result, the company's fees for 2015 and 2016 will be approximately $3.4 million higher than anticipated, and this charge was reported in Q1 as an increase in SG&A expenses.

Turning to contingent consideration. The company incurred contingent obligations to the sellers of Lazanda, Cambia and Zipsor in connection with the acquisition of these products. The contingent consideration consists of certain milestone payments based on future sales of these products and, in the case of Lazanda, royalties on net sales of the product. In light of the recent performance of these products, the company has reevaluated and reduced the fair value of these contingent obligations. And as a result, the company recorded a reduction in SG&A expense for the first quarter of 2017 of approximately $5 million.

Moving on to non-GAAP SG&A expenses. Excluding stock-based compensation, contingent consideration and the onetime expenses associated with an Actavis shareholder and our CEO transition, non-GAAP SG&A expenses were $48.1 million for the first quarter of 2017.

GAAP and non-GAAP research and development expenses for the first quarter of 2017 were $5.1 million and $4.7 million, respectively. R&D expenses include the costs associated with pediatric trials of NUCYNTA, clinical work directed at expanding the NUCYNTA label and costs associated with the cebra development.

I want to make one comment with respect to our cash tax rate. As a result of our reforecast, we expect our cash tax rate for 2017 to be approximately zero.

Moving on to the balance sheet. As of March 31, 2016, cash, cash equivalents and marketable securities were $194.4 million, a quarterly increase of $17 million.

In the first week of April, immediately after quarter closed, we used cash to repay $100 million of our secured indebtedness and a $4 million prepayment fee that will be recorded in Q2. The prepayment reduces the principal amount of our secured indebtedness to $375 million.

As we have stated in past calls, we are investigating several different approaches to refinancing our secure debt. Obviously, the first quarter results and our restated guidance for the year have impacted the timing of our refinancing, and they negatively impacted the terms of our refinancing.

We anticipate that we will be able to conclude our refinancing this year and expect that the refinancing will result in a reduced interest rate on our outstanding debt. However, I want to remind analysts and investors that as a result of the expected refinancing of the $375 million principal amount of our secured indebtedness to outstanding, we will incur a prepayment fee of $15 million, and we will write off approximately $6 million of noncash expense, consisting of unamortized debt discount and debt issuance costs. We will recognize these expenses in the period of the refinancing.

Refinancing at a lower interest rate were, in large measure, dependent upon our recent and projected EBITDA. After repayment of the $100 million of principal in April, our net secured debt-to-EBITDA ratio using our 2017 EBITDA guidance should be approximately 2.3, and our total net debt-to-EBITDA ratio using our 2017 EBITDA guidance should be approximately 5.

In light of our Q1 performance and our reduced revenue guidance for 2017, we have reviewed our expenses. As Arthur mentioned, we are reorganizing and reducing positions at our headquarters. We have also taken actions to reduce other expenses, including the reassessment of the cebra development program, which we anticipate entering Phase III trials in late 2018.

We expect that the restructuring expense will be approximately $5 million, which we will record in Q2. Our non-GAAP expense guidance reflects the lower expense levels resulting from these actions.

Now turning to updated 2017 guidance. Guidance for the year is based on our Q1 results and our current budget. Our budget is based on a large number of assumptions, and there are significant uncertainties in estimating future product revenues and operating expenses. For a more complete discussion of the relevant risks relating to our guidance, I'll direct you to the Risk Factors section of our Annual Report on Form 10-K that we filed in February and the Risk Factors section of our quarterly report on Form 10-Q that we expect to file either later today or first thing tomorrow.

With that said, total 2017 GAAP revenues are expected to be $405 million to $425 million, and non-GAAP revenues are expected to be $410 million to $430 million.

We expect total product revenues to be approximately the same, as we are not anticipating any milestone revenue or any significant royalty revenue in 2017.

We expect that the NUCYNTA franchise will represent approximately 64% to 66% of total net sales for the year.

As Arthur indicated, we expect to see our business turn up in the second half of the year, and we would expect Q3 and Q4 net sales together to represent approximately 54% to 55% of our annual net revenues.

COGS for our products in 2017 will be approximately 19% of net sales. For NUCYNTA and NUCYNTA ER, COGS will be approximately 25%, reflecting manufacturing costs and the royalties on net sales will accrue to Grunenthal. Average COGS on the other products are expected to be approximately 10% of net sales.

Non-GAAP SG&A expense, that is GAAP minus stock compensation, contingent consideration and restructuring charges for 2017, is expected to be $187 million to $197 million. As in past years, SG&A expenses will be slightly front-end loaded during the year.

Non-GAAP research and development expense, that is GAAP minus stock compensation, is expected to be $22 million to $29 million. These expenses include NUCYNTA label studies as well as pediatric studies for NUCYNTA. We expect R&D expenses to be somewhat back-end loaded during the year. This guidance range reflects the deferral of Phase III clinical work on cebra until late 2018.

(technical difficulty)

And I'll close with a comment on non-GAAP financial measures. The Non-GAAP financial measures by Depomed are not based on any standardized methodology prescribed by GAAP and may be calculated differently from, and therefore may not be comparable to, non-GAAP measures used by other companies.

That concludes the financial discussion, and I'll now turn the call back over to Arthur.

Arthur Joseph Higgins - *Depomed, Inc. - CEO, President and Director*

Thanks, Augie. Before I open the call to questions, I would like to share a key addition to the executive team that will strengthen our organization.

Last month, we hired Sharon Larkin as Senior Vice President of Human Resources and Administration. Sharon brings over 25 years of global human resource leadership to us, most of that time being spent at Abbott Laboratories, where she held roles of increasing responsibility. I'm confident Sharon will have an immediate impact on the organization as we look to attract, retain and develop the top talent necessary to ensure our future growth.

I hope that throughout this call this afternoon, you will get a sense that we understood -- understand what is impacting our business, that we are taking actions to address those issues, and in doing so, we are confident we can return the company to sustainable growth. Of course, what we can't control is the overall opioid market, but as I mentioned in my earlier remarks, we believe the pendulum will swing back, and the market will stabilize over time. And when it does, we will be uniquely and favorably positioned.

This is very much a case of some pain today for a greater gain tomorrow. With that I will open the call up to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from the line of David Amsellem with Piper Jaffray.

Sameer Singh - *Piper Jaffray Companies, Research Division - Research Analyst*

This is Sameer on for David. Just a few quick ones here. Given that you have some maturing volume trends in the commercial portfolio, now why wouldn't you look to reduce the size of the sales force? And is that something you are contemplating? Also, can you talk about how exactly you're thinking about the role of cebra and how you think delaying the clinical trials -- I guess, just the strategy there in place?

Arthur Joseph Higgins - *Depomed, Inc. - CEO, President and Director*

Sameer, yes, let me answer the first question. I think we made it clear, we have made a few missteps when we looked at our sales force alignment. But one of the things we're very confident about is the size we have now at 258 representatives in the pain field force means that we are optimally sized to compete in this market. We remain very committed to the potential of NUCYNTA ER and IR. So from that perspective, we think we've really got a pain sales force size. It's no more a case of making sure that they're properly targeted and have the right detailing priorities. Indeed, for the rest of our product portfolio, I think the take-home message today is very clear. We probably cut back too far and we did cut back too far on products that are promotionally sensitive and products that have, I believe, good potential and excellent runway. So there will be no reduction. If anything, you can expect us, as we start to demonstrate a return to growth, we'll be looking at ways to further increase our sales force. As far as cebra is concerned, we remain very excited about the potential of this product but do want to take a step back

---

Operator

And your next question comes from the line of Randall Stanicky of RBC Capital.

Randall S. Stanicky - *RBC Capital Markets, LLC, Research Division - MD of Global Equity Research and Lead Analyst*

Arthur, what are your specific priorities here? Is it to add pipeline? Is it to diversify from NUCYNTA? Or is it to focus on growth in the core assets? And then going back to Sameer's question on cebranopadol. Why is this a core asset? It's going to cost a lot of money. The opportunity for revenue is several years away. Are these the type of assets that Depomed is going to pursue, given the current capital structure and leverage?

Arthur Joseph Higgins - *Depomed, Inc. - CEO, President and Director*

Yes. Randall, 2 very good questions. And let me say, first of all, my #1, my #2 and my #3 priority is to get our business back to growth. We want to focus on all we have available to sell today. I really believe in these products, and I believe with the appropriate level of promotion, we can return them to the growth that you were seeing in the second half of last year. So I feel very optimistic about the future. We have made a few missteps, and now it is important that we get the momentum back into our business. Again, with cebra, I think -- we do believe we have a product that can be differentiated, but rest assured, as we look to develop our Phase III program, we will be asking ourselves those very appropriate questions, which is, can we really get an attractive return? As you can appreciate, I have, over the 35 years, been responsible for probably the development of close to [13] products that have gone into Phase III and I'm pretty sure that determining those assets that can really make an attractive return to shareholders. So I hope you can read from those comments that we still believe in this asset. But before we commit, we will make sure that we have a Phase III program that gives us the highest probability of success. And if during that assessment, we determine that the risk reward is not appropriate, rest assured, we'll make the most appropriate decision.

Randall S. Stanicky - *RBC Capital Markets, LLC, Research Division - MD of Global Equity Research and Lead Analyst*

No, that's fair. And your predecessor had a view that the platform would have been -- would be benefiting under a bigger overall platform. That, either by M&A as a buyer or seller. So as you look, and you've had year review of the current Depomed platform, where are you on that view? Do you think that Depomed can benefit from being part of a bigger company? And then a separate one for Augie. If I'm not mistaken, SG&A guidance is only going down $5 million for the year. And just given the cost revisit that you're undergoing, why not focus on more cost savings, given the current challenges?

Arthur Joseph Higgins - *Depomed, Inc. - CEO, President and Director*

Yes, Augie?

August J. Moretti - *Depomed, Inc. - CFO and SVP*

Yes. With respect to the delta in expenses for both SG&A and R&D, remember that we've only got the benefit of the reductions for less than a full year. So it's really 7 months that we will have the reduction. And in approaching this, we really looked to streamline and reorganize our operations here, but our approach was to maintain expenses from -- in sales and marketing to be able to support the products.

Arthur Joseph Higgins - *Depomed, Inc. - CEO, President and Director*

Okay. And Randall, let me come back to your question about focused organic versus inorganic. As we get to know each other, you'll realize I'm a very big believer, and I already made this statement, sell what you have today. I've seen in too many occasions. People dropping the ball because they're focused on things that will come in the future. So again, my focus for the next 6 to 9 months is to get NUCYNTA ER and IR back up to where the potential of these products deserves. And then when I've done that, I'll start to consider what's next for the company. But first and foremost, I don't want my team to be distracted. I want them to focus on getting growth and sustainable growth back into the company.

Operator

And our next question comes from the line of Ami Fadia with UBS.

Ami Fadia - *UBS Investment Bank, Research Division - Director and Equity Research Analyst*

I had a couple. Just within your guidance, have you factored in any -- or do you anticipate any shift in coverage for any of the products? Or any future price increases? And then I have a couple of other questions.

Arthur Joseph Higgins - *Depomed, Inc. - CEO, President and Director*

Yes. Thank you, Ami. First of all, let me say we are fortunate to have good or better coverage in commercial lives than any of our competitors. The challenge, Ami, is making sure that we maintain that coverage without giving up unnecessary discounts. I believe we are pretty well positioned. We haven't assumed any significant gains or losses in the commercial area. In the first quarter, in the Medicare area, we lost SilverScripts. I have requested my team to do their utmost to see whether it's possible we could get that business back, providing the terms are more attractive because we do believe that maintaining and growing market share is really the strategy we should be adopting. There's a very clear message today. The market is tough today, but the market is large. It's going to be here in a couple of years. And if we stay the course and if we stay strong, we can be the ultimate winner. So that's how we see coverage. We will continue to fight for it but do so in a responsible way. And as far as the managed care lives go, the Medicare lives go, we will, again, ensure that we would look at the commercial benefit as well as the spillover that has on commercial lives.

Ami Fadia - *UBS Investment Bank, Research Division - Director and Equity Research Analyst*

Okay, great. And one other question I had was if you look back at the performance in the first quarter, how much of it do you think was really due to the disruption of the sales force? And how much was it due to, really, the changes in the market dynamics? And as you think about the reorganization of the sales force going forward, how long do you believe that it might take for some of the non-NUCYNTA products to start responding to improved detailing? And then on the opioid market, when do you see that market stabilize? Is it sometime by the end of the year? Or do you think it could still take some time into 2018?

Arthur Joseph Higgins - *Depomed, Inc. - CEO, President and Director*

Yes, let me take that. I think, in terms of the opioid market, that stabilization, I don't think it'll be this year and perhaps not in 2018 and maybe into 2019. But again, if you think of what I believe we can achieve here, our first goal is to stabilize, which we will do over the next couple of quarters. We expect to finish the year well positioned for growth, so that's the next phase. And then in 2019, I think you can expect us to break out, and that, I believe, to be well aligned with a stabilization in the market. Now your question on the non-NUCYNTA products. I mean, clearly, we've been very direct. The decision to significantly reduce the promotion behind these products had an immediate effect. We are, as we speak, increasing that neurology field force from 40 to 60, but it will take several quarters before we'll actually see the benefit of that. But again, we believe in these products, and it's our goal to put more promotion behind them, and again, ultimately, as they start to respond, to look at whether we can find even more resources to further accelerate the growth.

Operator

And your next question comes from the line of Ken Trbovich with Janney.

Unidentified Analyst

This is actually [Brendan] on for Ken. So I was hoping to speak a little bit more about this pendulum of the opioid market. And the first question would be, do you see an opportunity to be more proactive around that? And perhaps, highlighting the differences in NUCYNTA because it's not a traditional opioid. Are there any plans to perhaps change your labeling around or add further data around respiratory data or the market equivalency?

Arthur Joseph Higgins - *Depomed, Inc. - CEO, President and Director*

Yes, look, I think, in every dimension, we want to be seen as leaders in this pain opioid space. So you are going to see us be more proactive. I think management in previous calls has mentioned that we are looking to strengthen our label. Again, that data is probably not going to be available until 2019. Again, very consistent with my view of stabilize this year, finish the year strong, grow in 2018 and break out in 2019. In addition, you will see us, [Brendan], take a more active voice in trying to shape opinion in this space. As leaders, I think we've got start to get behind initiatives that focus on responsible prescribing of opioids. And one of the challenges our field force is having, that's such a lot of negative press surrounding opioids, and we need to do our best to make people aware that the vast majority, and I mean, the vast majority of patients on opioids use them responsibly. And if you're going to choose an opioid, choose an opioid like tapentadol which has characteristics that, I believe, make it a drug of choice when you have concerns about opioid use.

Unidentified Analyst

Okay, great. And then so maybe in the near term, do you see any potentially (inaudible) to diversify away from the opioid epidemic if you're not expecting the pendulum swing back for until 2019? Are there maybe opportunities? Or is that -- I guess, you've spoken about your sales force alignment for your other products.

Arthur Joseph Higgins - *Depomed, Inc. - CEO, President and Director*

Yes. I mean, look, I think the first priority with a non-NUCYNTA product is to really address the impact that we've seen in Gralise and Cambia from taking these sources off. That was a misstep. We need to correct that as fast as we can. There's nothing like momentum to position you for them looking at external opportunities, but it's, for me, it's a 2-step process, build a solid foundation, get growth back in the business and then look at how we can hyperdrive that to inorganic opportunities.

Operator

There are no questions at this time.

Arthur Joseph Higgins - *Depomed, Inc. - CEO, President and Director*

Okay. Well, then I just like to thank everybody for joining us today. I'd like to also thank everybody for their continued interest and commitment. I hope with our actions today, you can see that we created a path forward that is focused on execution, transparency, accountability and an unwavering commitment to return to business to sustainable growth and creating shareholder value. I'd like to thank my team who have really rallied around in the last 30 days and share my confidence in the future of this company. With that, I wish you all a good afternoon.

Operator

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