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DEPO - Q4 2017 Depomed Inc Earnings Call

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PRESENTATION

Operator

Good afternoon, and welcome to the Depomed Fourth Quarter and Fiscal Year 2017 Financial Year 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, Jenny. Good afternoon, and welcome to our investor conference call to discuss Depomed's fourth quarter and full year 2017 financial results announced earlier today.

The press release and investor presentation covering our earnings for this period are 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 related to the commercialization of Gralise, Cambia and Zipsor; the company's financial outlook for 2018; development plans; and other statements that are not historical facts. Actual results may differ materially from the results predicted and recorded results should not be considered an indication of future performance. These and other risks are more fully described in the Risk Factors section and other sections of our quarterly reports on Form 10-Q and our Annual Report on Form 10-K for the year ended December 31, 2017, that we will 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 only 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 an updated guidance with the SEC in a publicly accessible document.

References to current cash, cash equivalents and investments are based on balances as of December 31, 2017. All guidance, including that related to the company's expected total product revenues, operating expenses, adjusted non-GAAP earnings and nonadjusted EBITDA are as of today, February 27, 2018.

With that, I'll turn the call over to Arthur Higgins.

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

Thank you, Chris, and good afternoon, and welcome. As many of you know, next month marks my 1-year anniversary with Depomed. When I joined, I was aware the company faced some challenges. However, I quickly discovered that the extent of those challenges and the headwinds we faced were greater than expected. And what was needed was not a change at the edges of our strategy, but a completely new strategy that would help transform the company and position it for sustainable growth and shareholder value creation. And that is exactly what we've done over the past 180 days. The strategy was to pivot from a company that was highly dependent on one pillar, NUCYNTA, to one that is more of the best and has 3 strong pillars. I'm pleased to report we have made significant progress executing against that strategy already. We refer to those 3 pillars as maintain, grow and build. Our goal is to maintain a strong NUCYNTA franchise, grow our neurology and pain franchise and build a new orphan specialty franchise.

I would now like to discuss each of these 3 pillars in more detail. In December, in connection with our maintain pillar, we announced our deal with Collegium. To remind you, under this deal, Collegium will record revenues and assume all responsibilities associated with the commercialization and distribution of NUCYNTA. Depomed received the $10 million upfront and will receive from Collegium royalties on all NUCYNTA sales. For up to 4 years, Depomed expects to see minimum royalties of $135 million per year payable quarterly. In years 5 and after, we will receive a royalty of 58% of sales after the first $233 million and between 25% and 17% of net sales above $233 million. It is important to note that we've also created a special purpose vehicle with a lockbox that, on a daily basis, allows Depomed to sweep 35% of NUCYNTA gross sales, which equates to approximately 70% of net sales until the minimum quarterly payment of $33.75 million is reached. We believe this mechanism constantly protects the minimum payments under this agreement. Collegium does have the right, after the first year, to terminate this agreement by giving 12 months' notice and paying a $25 million early termination fee. In the event of early termination, Depomed would still receive a minimum on this agreement of $305 million. The Collegium sales force has now received NUCYNTA training in early February and was deployed into the field in mid-February. Collegium has shared with us that their field force is highly energized and excited to be selling NUCYNTA.

We truly believe that Collegium is the right partner for this important asset as they are an emerging leader in pain management and are committed to building a leading pain company. Their product, Xtampza ER, is the fastest-growing extended release branded opioid. And Collegium sales force is supported by a strong home office, commercial and managed care infrastructure. We expect the transition from Depomed to Collegium with NUCYNTA to be greatly helped by the fact that there's a significant overlap between their current sales force targets and NUCYNTA customers. With this transaction, Collegium executes on their desire to possibly enter the immediate release market with NUCYNTA, which both companies believe is a best-in-class molecule; and secondly, to expand the share of the extended-release market by offering 2 complementary products with definite mechanism of actions. Both companies believe that by promoting Xtampza and NUCYNTA together, Collegium is now uniquely positioned to address the continuum of care for patients requiring treatment with opioids.

Turning now to our second pillar, which is to grow our neurology and pain franchise. In late September, we increased our neurology sales force from approximately 40 to 90 people. This sales force initially promoted only Gralise and Cambia. However, in January, they also began to promote Zipsor, the only prescription NSAID in a gel cap form. With physicians looking to delay the introductions of opioids, we believe Zipsor has a real role to play. In January, it was my great pleasure to attend our national neurology sales force meeting, and I can tell you that this team is full of confidence. We believe we now have the necessary firepower to first stabilize and then, by the end of the year, return our neurology franchise to growth. As I also mentioned last quarter, we're also committed to growing this franchise through in-licensing and acquisitions. We are seeing a number of interesting opportunities and remain cautiously optimistic of bringing at least 1 additional product onboard this year. Our goal is that by the end of the year to have this franchise absorb all of the company's planned overhead and still be EBITDA positive.

Turning now to our third pillar, which is to build a new orphan-specialty franchise. The November asset transfer agreement with Slán Medical where we sold them Lazanda for the rights to in-license synthetic cosyntropin laid the foundation to build our orphan specialty portfolio. This new franchise will focus on products like cosyntropin that are high-value, high-touch specialty or orphan products that are really geared towards today's needs of patients, physicians and payers. We anticipate an NDA filing later this year for Cosyntropin's first indication. And if approved, we expect to launch this product late 2019 or early 2020. We look forward to sharing more about the first indication and our go-to-market strategy closer to our NDA filing.

In parallel, a large investigator-sponsored clinical trial has just been underway into supporting a second indication in infantile spasm. The investigation meeting was held in January and the trial is open for enrollment. The trial will enroll approximately 400 patients and will be conducted across 15 leading academic centers in the U.S.

We are also making good progress on our previously announced headquarters relocation and expect to announce shortly the chosen location. This new location will be approximately 30,000 square feet, half the size of our current headquarters. In addition to the savings we'll make for this move, we will also be locating to a part of the country that will make it easier to recruit talented specialty pharmaceutical executives. We are already welcoming onboard a number of very talented pharmaceutical executives who will join us at our new location. Our goal is to have our new site fully operational sometime in the third quarter.

Turning now to our milestones for 2018. We already made progress in our first half goals with the closing of our NUCYNTA commercialization agreement with Collegium and the commencement of our investigational new drug trial of cosyntropin in infantile spasms. We look forward to executing on our second half 2018 milestones, which includes the move of -- into our new headquarters, the refinancing of our secured debt, the NDA submission for the first indication for cosyntropin, a very important jury trial in the Purdue litigation, the return of our neurology franchise to growth and executing 1 to 2 new business development opportunities.

As you can see, this is shaping up to be a very busy year, but I am confident in delivering against these goals and that we are positioning the company for improved profitability in 2018 and the potential breakout in 2019 and '20.

I would now like to turn the call over to Augie for a review of our financials.

August J. Moretti - *Depomed, Inc. - CFO & Senior VP*

Thank you, Arthur.

Today, I'll first review a few of the financial highlights from our fourth quarter, followed by our 2018 guidance. I want to mention at the outset that with respect to our fourth quarter and full year results as well as our 2018 guidance, that 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.

Total GAAP revenues for the quarter ended December 31, 2017, were $94.4 million. For the quarter, total NUCYNTA franchise sales were $60 million, up from $58.7 million in Q3 '17. Results for the fourth quarter of 2017 were negatively impacted by shortages of certain dosage strengths of NUCYNTA ER. While Depomed's manufacturing partner for NUCYNTA ER has informed us that their plant is now fully operational, they are trying to catch up with backorders. As a result, there have been spot outages of certain strengths of NUCYNTA ER. While this may continue into the future, the company believes that based on current information, that supply should return to normalized levels by mid-March 2018.

Turning to the remainder of the portfolio. Gralise fourth quarter net sales were $20.2 million, down from the $21.1 million in Q3 of '17. Cambia had fourth quarter net sales of $7.7 million, down from $8.2 million in Q3 '17. Lazanda had fourth quarter net sales of $1.8 million, down from $4.0 million in Q3 '17. In conjunction with the previously announced divestiture of Lazanda to Slán on November 7, we ceased to receive product revenue after that date.

Finally, Zipsor had fourth quarter net sales of $4.4 million, up from the $3.2 million in Q3 '17.

Now with respect to the fourth quarter overview. Days on hand at wholesalers decreased by over 2 weeks from the end of the third quarter of 2017 for NUCYNTA ER as a result of supply interruptions during the quarter. Days on hand at wholesalers for our other products were up 1 to 2 days during the quarter and averaged approximately 21 days. Cost of goods for our portfolio in Q4 2017 was approximately 19% of revenue, and this is up slightly from the third quarter where COGS was 18% of net sales. As most of you know, COGS for NUCYNTA is approximately 24% of net sales, and COGS for the rest of the portfolio is approximately 9%.

Turning to fourth quarter expenses. GAAP selling, general and administrative expense was $48.3 million for the fourth quarter. Non-GAAP SG&A expense, that is excluding stock-based comp and contingent consideration, was $45 million for the fourth quarter of '17. GAAP and non-GAAP R&D expenses for the fourth quarter of '17 were $1.3 million and $1.2 million, respectively. And finally, EBITDA for the quarter was $32.8 million, up from $30.1 million in Q3.

Moving to a look at full year 2017. Total GAAP revenues for the full year ended December 31, 2017, were $381 million. For the full year 2017, total NUCYNTA franchise sales were $240 million, down from $281 million in 2017 -- in 2016, excuse me. Gralise full year net sales were $77 million, down from $88 million in 2016. Cambia had full year net sales of $32 million, up from $31 million in 2016. Lazanda had full year net sales of $15 million, down from $26.5 million in 2016. And finally, Zipsor had full year net sales of $16.7 million, down from $27.5 million in 2016.

Moving on to the balance sheet. As of December 31, 2017, cash, cash equivalents and marketable securities were $128 million, a quarterly increase of $14.5 million from our balance at the end of Q3. At year-end, we had $710 million of debt outstanding consisting of $345 million of convertible debt and $365 million of secured debt. Net debt was approximately $580 million or just under 5 turns using our $117 million EBITDA for 2017.

Now turning to 2018 guidance. Guidance for the year is based on our current budget. And our budget is based on a large number of assumptions. 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 will direct you to the Risk Factor section of our Annual Report on Form 10-K that we expect to file later this week.

As we are no longer responsible for commercialization of the NUCYNTA franchise, we are not giving guidance on total revenue. We closed our commercialization agreement with Collegium on January 9, 2018. So when we report results for periods in 2018, we will reflect NUCYNTA sales and related COGS for the 8 days in January. Also, the minimum royalties from Collegium for the first quarter of 2018 will be reduced to reflect the January 29 closing.

Net sales for the 3 products in our neurology portfolio for 2018 are expected to be in the range of $120 million to $125 million, flat to slightly below 2017 performance. As Arthur mentioned, we expect to have this portfolio back to growth in the second half of 2018. GAAP SG&A expenses are expected to be in the range of $123 million to $133 million, a marked reduction from 2017 GAAP SG&A expense of $196 million. Non-GAAP SG&A expenses, that is GAAP minus stock compensation, purchase accounting, contingent consideration adjustments and nonrecurring costs, are expected to be in the range of $110 million to $120 million. Again, this reflects a marked reduction from 2017 non-GAAP SG&A expense of $188 million and reflects the impact of our reduction in force and the relocation of our headquarters. Non-GAAP R&D expenses are expected to be $10 million to $15 million. This compares to non-GAAP R&D expense for 2017 of $13 million. The principal elements of R&D expense will be pediatric trials for NUCYNTA, Cambia and Zipsor. We have retained responsibility for the NUCYNTA pediatric trials pursuant to our Collegium agreement. Non-GAAP adjusted EBITDA is expected to be $125 million to $135 million, an increase from this year's $117 million.

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

Arthur, that concludes the financial discussion. I'll turn the call back over to you.

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

Thank you, Augie.

I hope you all agree that Depomed's transformation is well underway. You only have to consider how the company looked only 180 days ago versus today to get an appreciation of how much have been achieved. 180 days ago, we were a company that effectively had 1 pillar in NUCYNTA that was participating in the volatile opioid market with a field force that was wrongly sized. We had a good portfolio of neurology products, but they were effectively not being promoted. We had no clear strategy for growth or business development. Our headquarters was too large and in a location that made it difficult to attract specialty pharmaceutical talent.

Today, we start the new year with our new 3-pillar strategy that squarely addresses our challenges and our opportunities. And as I just shared with you, we have a clear set of milestones that we expect to deliver against and ones that we believe will position the company for improved profitability in 2018 and a potential breakout in 2019, 2020.

With all of that said, I would now like to ask the operator to open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question is from David Amsellem with Piper Jaffray.

David A. Amsellem - *Piper Jaffray Companies, Research Division - MD and Senior Research Analyst*

So just a high-level question. So I'm looking at the neurology portfolio and a significant pressure on volumes and eventually, down the road, losses of exclusivity. So it tells us here that you're making much in the way of margin on the business. So it sort of begs the question, particularly in the wake of the NUCYNTA transaction, will you continue to focus on neurology over the long term? Is this an area where you think you could scale back? And just give me a sense of your just overall strategic vision here, given what we know about these assets.

August J. Moretti - *Depomed, Inc. - CFO & Senior VP*

David, this is Augie. I just want to interject one point here. And that is that these are 90% gross margin products in terms of the financial analysis.

David A. Amsellem - *Piper Jaffray Companies, Research Division - MD and Senior Research Analyst*

Augie, I'm talking about your operating margins. I'm aware of the gross margins.

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

Yes. David, I think a bit of building on what Augie said, I mean, they are products that we can grow even modestly. They spin off a lot of gross margin and will cover, as I mentioned, all of the other overhead. I mean, the way we're actually looking at the businesses, the neurology business has to cover the entire overhead of the organization and still be positive. So on that basis, we're thinking either a real role to play, but more importantly, we think it can be a platform that can enable us to bring in additional assets. And that's really why it's strategically of importance. We have capabilities in neurology. We have this positive cash flow business. And if we can bring in just 1 additional asset, I think this can be a real value driver and be something that is attractive for us to keep in maintaining our -- in our portfolio. So long answer to a very short answer, which is we do think this is strategic, and we intend to keep our focus on our neurology business.

David A. Amsellem - *Piper Jaffray Companies, Research Division - MD and Senior Research Analyst*

And if I may just sneak in another. Just specifically on Gralise, which is -- obviously, it was an important -- is an important product. It was in -- is your number -- was your #2 seller after NUCYNTA last year. What are your thoughts on what you can do to stabilize or grow volumes there? And what do you think the impact of LYRICA generics may or may not have on that product?

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

Yes. Look, I think what's really important when we look at the current performance of our neurology products, including Gralise, is before I arrived last March, we effectively walked away from these products. So essentially, for all of last year, they were not getting promoted until the last couple of months. So we lost a lot of ground. If you look back to 2016, David, we were able, when we were promoting these products, to grow all 3 products: Gralise, Cambia and Zipsor. So we take some comfort from that. So that's why we believe we can with appropriate promotion role. As to LYRICA going generic, effectively at the moment, we have a -- such a small share of this market that we have been in situations where LYRICA and even the new LYRICA CR are not appropriate. And that is because the patients do not tolerate the side effects of LYRICA. So we believe we're pretty insulated from that and that we have to continue to emphasize that for patients that do not tolerate LYRICA, we can offer a once-a-day solution.

Operator

Your next question is from David Risinger with Morgan Stanley.

Onusa Chantanapongwanij - *Morgan Stanley, Research Division - Research Associate*

Regarding cosyntropin. So first, what needs to be done before you can file cosyntropin? Could you elaborate on that a little bit more? And second, what are you expecting in terms of payer receptivity and formulary access once you get the approval? And lastly, when should we expect to have the data for the second indication on infantile spasm?

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

Okay. On the -- the first question again was on the -- the first part of the question was on the -- sorry, I missed the first part. The second part was payer, the part with data. The first question -- part of the question was on -- can you remind me what the first part was?

Onusa Chantanapongwanij - *Morgan Stanley, Research Division - Research Associate*

Yes. The first question was around what kind of steps that you need to -- yes, before you can file.

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

I'm sorry. Yes. That. Yes. Look, for the first indication, we had made it clear that we believe we have all the information that's necessary. So we're simply in the preparation phase. We know what's required to support the first submission. So the question was, is there additional clinical studies or what that needs to be done? The answer is no. But we do have to compile the data and submit it in an appropriate form. And that's what we are doing at this stage. As to the payer interest and receptivity, we've already begun payer discussions, and I can tell you there's been a high level of interest. And we continue to expect to get a lot of support from payers who are anxious to see an alternative to XR in the market. And on -- sorry, I've forgotten the third question.

August J. Moretti - *Depomed, Inc. - CFO & Senior VP*

(inaudible)

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

Data. The second, I think (inaudible).

Onusa Chantanapongwanij - *Morgan Stanley, Research Division - Research Associate*

When you'll have data at the (inaudible) scale.

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

Onusa Yes. On the infantile spasm, this is a 3-year study. So we would expect data to probably be available somewhere -- 3.5 years to 4 years from now. But again, I think as we start to get into -- as we will be later this year talking about our commercialization strategy, one of the benefits of the paper study we're doing, in this case, with 15 academic centers is obviously we are getting opinion leaders very familiar with using this product. And we believe that will have a spillover effect even prior to the product getting formal registration in that indication. I hope that answered your questions.

Operator

The next question is from Randall Stanicky with RBC Capital Markets.

Daniel James Busby - *RBC Capital Markets, LLC, Research Division - Senior Associate*

This is Dan Busby on for Randall. A couple of questions on business development. First, if you do add an on-market product to the neurology franchise, would your existing 90-rep sales force have the capacity to detail that as well? Or would you anticipate scaling up the number of reps further?

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

Yes. Look, that's obviously going to be circumstance-specific. So we believe the type of products we've looked at, at the moment, we could cover them reasonably comfortably within the existing 90 field force personnel we have. We have seen a couple of situations where we may have to add something like 20 to 30 representatives, but it's not a major upsizing of our sales force. So that gives us again some confidence that if we can find the right product, it will be immediately accretive to our business.

Daniel James Busby - *RBC Capital Markets, LLC, Research Division - Senior Associate*

Okay. Great. That's helpful. And then you've mentioned that you plan to refinance your debt in the second half of this year. Does that have any impact on potential business development? I know you've mentioned that you have a fair amount of flexibility at the moment. But are there any incentives one way or the other to complete the transaction before or after you do that?

August J. Moretti - *Depomed, Inc. - CFO & Senior VP*

I think from our perspective that it's our goal to refinance in the second half of the year, and our hope would be that we would be able to establish a structure that would give us direct flexibility to borrow additional amounts to support PD work.

Operator

Your next question is from Scott Henry with Roth Capital.

Scott Robert Henry - *Roth Capital Partners, LLC, Research Division - MD, Senior Research Analyst & Head of Pharmaceuticals Research*

A couple of questions on the product franchise. I guess -- look, I've been covering the company for a while. And for a while, I've been hearing about Gralise at least not getting any worse, but it continues to decelerate. And I realize you inherited some of that, Arthur. But I guess, my question is -- this has been going on since 2014. Do you think upping the reps now is going to stabilize it? Or is it going to keep going down before it stabilizes? It just may be a very hard market to penetrate, given the generics. But I just want to get your expectations for when we see that share stabilize and start to increase.

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

Yes. Again, Scott, that's a very good question. I think what we tried to say is, we only -- we really have been our own worst enemy. And a lot of the issues with Gralise when you look back has been our inconsistency to stay behind the brand. So it's very hard. A lot of this is a brand problem or a promotion problem at the moment. We're -- we -- our belief is it's more of a promotion problem than a brand problem. Time will prove us right or wrong. But more importantly this is -- as you see in our outlook for this year, we've been pretty realistic in our expectations. It's for the total neurology portfolio to be essentially flat or slightly down. And again, even at that level and even allocating all the costs of the entire business against that, it's our expectations that by the second half of the year, that business will be EBITDA positive. So it may not be a -- what I would call, a stellar business at this point in time, but it's still a solid contributor to our cash flow and again, positions us to bring in an additional asset at which time this business could look very differently. So I think, Scott, we take the comment very seriously. It's something that obviously we are very aware of. We're not deceiving ourselves here that we've got some heavy lifting to do. But the good news is we haven't predicated a plan based on doing something that is inconsistent with what's been happening historically.

Scott Robert Henry - *Roth Capital Partners, LLC, Research Division - MD, Senior Research Analyst & Head of Pharmaceuticals Research*

Okay. Thank you for that color. Just shifting gears to NUCYNTA ER. You mentioned the supply issues that should correct by mid-March. If I look at the weekly prescription data, kind of sort of to -- at the end of January, the product really seemed to roll over in terms of share. Is that a function of manufacturing capacity? Or is there something else going on there?

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

Again, Scott, I think the best way to answer that is if you look at IR versus ER, and as you know, we do not have a supply problem with IR. IR was pretty stable through December, January. The issue was ER. And we did experience significant spot outages in early January. It started to improve as we moved through the month and have continued to improve. So we believe and I believe that's also how Collegium sees the world that the bulk of all of the impact in ER is a function of supply in the marketplace.

Scott Robert Henry - *Roth Capital Partners, LLC, Research Division - MD, Senior Research Analyst & Head of Pharmaceuticals Research*

Okay. That's helpful color. Certainly, the IR does look a lot better. Final question. It's been a while since I've really focused heavily on Cambia and Zipsor. But with NUCYNTA gone, they become a lot more important. How should we think about those franchises? Are they steady growers? And should the additional neurology reps -- should they increase that growth? And I'm just trying to get a sense of how we should think about growth of those franchises.

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

Scott, I think you just touched on a -- another very important point. I do believe the juries are out on Gralise, and we have to determine that ourselves. But both Cambia and Zipsor compete in very large markets. And physicians that use them speak very highly of them. So we actually think that there's a little more upside in Cambia and Zipsor, and that may offset any inability that we may have to grow Gralise. So I think we are pretty optimistic with Cambia and Zipsor.

Operator

Your next question is from Irina Koffler with Mizuho.

Irina Rivkind Koffler - *Mizuho Securities USA LLC, Research Division - MD of Americas Research & Senior Analyst*

Regarding your NUCYNTA. So I just wanted to confirm, are you still expecting to receive the $135 million royalty from Collegium this year? Would you expect a meaningful load-in of the NUCYNTA in first quarter due to this disruption and the fact that your inventory levels have worn down? And then subsequently to that, would the inventory stocking be a little lumpy if the plant works in fits and starts? And then I have another follow-up on NUCYNTA.

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

Yes. The important point here is, we are not going to, going forward basis or today, comment on NUCYNTA from the perspective of end market demand. That's really going to be at the control of Collegium, and they will give you, I'm sure, a perspective on their upcoming quarterly call as to what they will do with inventories in the first quarter. What I can tell you is the $135 million is very, very secure from our perspective.

Irina Rivkind Koffler - *Mizuho Securities USA LLC, Research Division - MD of Americas Research & Senior Analyst*

And the inventory?

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

Again, the inventory is that their responsibility. And I'm not going to comment on what they intend to do. I'm sure they will give you some color when they -- [this year] at the market at their upcoming conference call.

Irina Rivkind Koffler - *Mizuho Securities USA LLC, Research Division - MD of Americas Research & Senior Analyst*

Okay. And then I guess a follow-up it is. If they are kind of running breakeven, would you expect them to potentially, at some point, walk away from this if they grow EBITDA negative on it? Or do you expect, with the turnaround in March with the supply, that the agreement will return to its normal status?

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

Yes. Look, I think, first of all, we've got to put this into 2 pieces. The first part is, even if there was an early termination, that's after 12 months with 12 months' notice. And that was the number I gave in my commentary. That would mean the minimum we would receive would be $305 million. So that's point one. Point two, and again, we believe that numbers -- even significantly below where the product is performing today, this is still a very attractive transaction from Collegium's perspective. So of course, we can never say that there will not be an early termination. We believe that the commercial logic and strategic logic is highly compelling. And there are many additional synergies that Collegium is now able to benefit from as a result of having NUCYNTA in this portfolio and that if it moves -- if this would ever return to Depomed.

Irina Rivkind Koffler - *Mizuho Securities USA LLC, Research Division - MD of Americas Research & Senior Analyst*

If I may just sneak in one more around cosyntropin. So by the time you launch your product into the market, there'll be likely another competitor, lower-priced corticotropin product for another company. So if there's 2 low-priced offerings in the market, can you maybe weigh in on how you would differentiate yourselves?

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

Irina, I think our market intelligence says we will be first to market. And if you've got a different piece of information that's not consistent with our knowledge, then we obviously can't comment on competitors. But we try and stay abreast of what other companies are saying. And based on what we have guided to, which is we will make a submission end of this year, we should be the first competitor on the market to cosyntropin to reach an outcome.

Operator

At this time, there are no further questions. I'll turn the call back over to Mr. Higgins.

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

Well, thank you all for joining us today and for your continued interest in the company. Again, I hope you agree that the new Depomed is a leaner, more entrepreneurial and faster-moving company. And I look forward to continuing to update you on our progress as we deliver improved profitability and shareholder value creation. Thank you again.

Operator

That concludes today's call. You may now disconnect.
