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DEPO - Q1 2018 Depomed Inc Earnings Call

EVENT DATE/TIME: MAY 10, 2018 / 12:30PM GMT

THOMSON REUTERS

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PRESENTATION

Operator

Good morning. My name is Angela, and I will be your conference operator. At this time, I would like to welcome everyone to the Depomed, Inc. First Quarter 2018 Earnings Conference Call. (Operator Instructions)

Thank you. I would now like to turn the conference over to Mr. John Thomas, Senior Vice President, Investor Relations and Corporate Communications.

John B. Thomas - *Depomed, Inc. - Senior Vice President, Investor Relations and Corporate Communications*

Thank you, Angela. Good morning, everyone, and welcome to our investor conference call to discuss Depomed's first quarter 2018 financial results, which we announced this morning. The news 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; Augie Moretti, Senior Vice President and Chief Financial Officer; and Jack Anders, Vice President of Finance.

I'd 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 -- have filed. 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 news 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 March 31, 2018. 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.

Also, remind you that the non-GAAP financial measures we use are not based on any standardized methodology prescribed by GAAP and maybe calculated differently from, and therefore may not be comparable to non-GAAP measures used by other companies.

With that, I will turn the call over to Arthur. Arthur?

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

Thank you, John. Good morning, and welcome, everyone.

I mentioned on our fourth quarter earnings call in January that I expected 2018 to be a very busy and productive year for our company, and the first quarter was indeed just that. We continue to make excellent progress against our new 3-pillar strategy plus also reporting overall financial results that met, and in some cases, exceeded our original expectations. As a result, today, we confirm the previously announced 2018 full year guidance for our neurology franchise net sales as well as our non-GAAP adjusted EBITDA.

In the first quarter, we recorded our first royalty revenues related to the commercialization agreement with Collegium, which are included in our total reported GAAP revenues of $128.4 million for the first quarter. Augie will explain the buildup of this revenue in a moment. We also reported non-GAAP adjusted EBITDA of $31.8 million, slightly ahead of our plan, primarily as a result of favorable expense management.

As you may recall, improving profitability, beginning this year, has been and remains a critical goal for us. So we're off to a good start on this important financial measure. Over the last few quarters, we dramatically reduced our overall expenses and essentially, derisked our cash flows and revenues through our Collegium agreement. Our underlying ongoing performance is right on track with our plan, and as a result, our profit outlook is significantly better than it was last year and significantly better than anyone could have reasonably expected just 6 months ago.

We are also making excellent progress executing our new 3-pillar corporate strategy of maintain, grow and build. Each of these pillars is a gatepost for us as we work towards sustainable growth and shareholder value creation. So let me review how we're performing against these 3 pillars as we assess our overall progress in the first quarter.

Regarding our strategy to maintain. We made great strides towards stabilizing our business by completing our commercialization agreement with Collegium. As a reminder, under the terms of this agreement, Collegium will record all revenues and assume all responsibilities associated with the commercialization and distribution of NUCYNTA. Depomed receives an upfront milestone and will receive guaranteed royalties of $135 million a year for the first 4 years of this agreement. We began booking these royalties as revenues in the first quarter, which as I mentioned, Augie will again describe in more detail in a moment.

Please recall that the primary goal of this initiative was to efficiently transition us away from the opioid space, so that we could aggressively focus on our neurology franchise as well as our new orphan specialty business that we are building. I'm pleased to say that our work on this initiative, anchored by Collegium, is going very well. In fact, we recently held a productive leadership summit for the included key executives from both companies.

One of the topics that we discussed was the previous NUCYNTA ER supply shortage due to the impact of last fall's hurricane in Puerto Rico. Clearly, this affected ER's performance in the first quarter, but I'm pleased to report those supply shortages have been fully resolved and Collegium is beginning to see the early signs of stabilization we expected in the NUCYNTA franchise and is still committed to returning the franchise to growth later this year or early 2019.

So our Collegium agreement forms a bedrock of our maintain pillar. With it, we're able to walk in and monetize a valuable asset through a steady stream of royalty revenues over the next several years, while at the same time, protecting downside risk. This has allowed us to stabilize our base business and reallocate our resources to other emerging sources of earning power and cash flow generation. For Collegium, the transaction clearly represents a synergistic fit with its this existing Xtampza business, giving them a unique portfolio of products that provides a continuum of care for patients being treated with opioids. It's a strategic and economic win-win for both parties, and that's making for a very strong and productive partnership.

Next among our 3 strategic pillars is our grow pillar. We again made good progress on this front. As you can see from our earnings news release today, where we announced 2 new business development agreements that help strengthen our neurology franchise. The first is a supplemental in-licensing agreement with Applied Pharma Research for a new patient-friendly presentation of Cambia. This new line extension will offer patients a more convenient dosing option compared to the existing presentation, which requires patients to mix the product with water before drinking. We plan to file for the approval of this new presentation next year. And if approved, it will have patent protection through 2026. The second

agreement is with Allegis Pharmaceuticals for a new co-promotion agreement for Zipsor, that will, in effect, supplement our existing field force with 30 additional sales reps beginning in June. These added reps will focus exclusively on primary care physicians, which we do not currently call on and they are either current or historical high prescribers of Zipsor. We'll share revenues with Allegis above a predefined sales base, and the agreement is structured to be self financing.

As we think about our grow strategy, recall last quarter, that I said our first goal was to stabilize the franchise and then return it to absolute growth in the second half of the year. We know (corrected by company after the call) that Gralise, Cambia and Zipsor are differentiated products that are promotionally sensitive.

Our 90 sales reps are making good progress, and importantly, are now entering that 6-month period, post relaunch, where they're expected to become more productive and valuable to the organization. And I'm encouraged by their performance so far. We slightly exceeded our sales plan for the first quarter, and the second quarter appears to be off to a good start. Based on these results, we're optimistic that the business is stabilizing, and we remain committed to returning this franchise to absolute growth in the second half of the year.

Moving now to the third pillar of our strategy, build. We're also making significant progress positioning our company for future success in the orphan specialty segment of the market. First and foremost, we just recently began enrolling and dosing the first patients in a new clinical trial for Cosyntropin in the treatment of infantile spasms, a specific seizure type present in infant epilepsy syndrome, a very rare and devastating pediatric orphan disorder. In addition, we remain on track with our development partner to submit an NDA with the U.S. FDA for the use of Cosyntropin in a separate indication, and we still expect that filing will occur by the end of this year. For competitive reasons, we will give more details on that indication at a later date, most likely in our second quarter earnings call.

Finally, as we continue to build our organization, I'm pleased to report that the transition to our new corporate headquarters in Lake Forest, Illinois, is proceeding well. We should be fully operational in our new offices by the end of this summer. It's early days, but we're already making great progress against our goal of attracting and hiring experienced pharmaceutical talent. The most recent examples of senior level new hires are: Stan Bukofzer, Senior Vice President for Medical and Regulatory Affairs; John Thomas, Senior Vice President of Investor Relations and Corporate Communications; Paul Schwichtenberg, Vice President and Controller; Scott Crawford, Vice President of Finance; Thérèse McCall, Vice President, Medical Affairs; and Gray Scholhamer Hulick, VP Strategy Alliance and Program Management. Each of these professionals brings an impressive background in the pharmaceutical industry with experience in both large and small-cap companies. I am confident that they as well as our other new recruits will play an important role in helping us reshape and strengthen our company for many years to come.

So in summary. It's been a very busy year already. The strategic and operational changes we are making are already paying dividends. And our people are energized and enthusiastic about our promising future and our very real prospects for growth. Our restaff organization here in Lake Forest is small but highly motivated. Our company has the positive energy and the feel of a start up. And in some sense, that is what we are. We are taking bold steps to reshape the company from one that was heavily dependent on 2 opioid products to one that today that's more diverse and stable, yet at the same time, nimble and more entrepreneurial.

I'm sure you all understand it's going to take a little time to see the complete turnaround come to fruition. So I ask today for your patience. In the meantime, I can assure you we're headed in the right direction and that our future is beginning to take shape. We will continue to focus on execution excellence and being opportunistic as we reshape the company into a lean, profitable and innovative orphan specialty pharmaceutical company.

With those comments, I will now turn the call over to Augie Moretti, our Chief Financial Officer.

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

Thank you, Arthur.

Today, I'll review financial highlights from our first quarter. For those who are joined us on the call, please refer to today's news release for an explanation of our non-GAAP financial measures and tables that reconcile the company's non-GAAP measures to GAAP measures. Also, please

note that GAAP accounting related to our commercialization agreement with Collegium follows the new revenue recognition standard, ASC 606, that we adopted this year and will talk about in a couple minutes in more detail.

Total GAAP revenues for the quarter ended March 31, 2018 were $128.4 million. There were 3 elements to our revenue. First, net sales of our neurology products of $26 million. Second, net sales of NUCYNTA for the period from January 1 through January 8 of $18.1 million. This amount includes the impact of a $12.5 million release of sales reserves relating to NUCYNTA revenues for which we are no longer financially responsible as a result of the Collegium agreement. And the third element was revenue under our commercialization agreement with Collegium in the amount of the $83.8 million.

With respect to the Collegium agreement, as Arthur mentioned, Collegium has the exclusive right to commercialize the NUCYNTA franchise. Going forward, we will receive minimum royalties of $33.75 million per quarter or $135 million annualized. We were also paid a $10 million upfront license fee, and we reimbursed $6.2 million related to the cost of inventory we transferred to Collegium at closing.

I want to spend just a few minutes discussing the accounting for the Collegium transaction. ASC 606, which is the new revenue recognition standard, requires us to allocate the respective proceeds we will receive to each of our performance obligations and recognize revenue as those performance obligations are fulfilled. For GAAP accounting purposes, we determine the transaction price under the agreement to be $553 million, which represents the sum of the minimum royalties over 4 years of $537 million, the $10 million upfront fee that we received and the $6.2 million inventory reimbursement. We identified our performance obligations of the sale of inventory at closing and are granting Collegium the right to commercialize NUCYNTA and our role in facilitating supply of NUCYNTA to Collegium.

We allocated $55.7 million of the transaction price to the inventory we transferred to Collegium at closing. This inventory was marked up to represent the stand-alone selling value of the inventory because the inventory transfer was completed in Q1, we recognized the entire $55.7 million as commercialization agreement revenue during the quarter. The remaining $497 million of the transaction price was allocated to the license to commercialize NUCYNTA and our role in facilitating supply to NUCYNTA -- to Collegium. This $497 million is being recognized on a ratable basis as commercialization agreement revenue through December 31, 2021, or approximately 4 years, which is the estimated time frame we expect to fulfill these respective performance obligations.

In Q1 2018, (corrected by company after the call) we recognized $28.1 million of commercialization agreement revenue associated with these license and facilitation services. This is incremental to the $55.7 million associated with the inventory transfer for a total of $83.8 million in GAAP commercialization agreement revenue for Q1, 2018.

In future periods, we expect to recognize GAAP commercialization agreement revenue of approximately $31 million per quarter through December 2021. This will be somewhat less than the cash we receive, which will be $33.75 million per quarter. The difference is largely due to the frontloading of the GAAP commercialization agreement revenue associated with the value of the inventory we transferred.

On a non-GAAP basis, we are adjusting for the noncash portion of the value assigned to the inventory and are reporting $31.3 million of non-GAAP commercialization agreement revenue for Q1, 2018. In future periods, we expect to recognize approximately $34.4 (corrected by company after the call) million of non-GAAP commercialization agreement revenue per quarter through 2021.

Any royalty amounts we earn above the $33.75 million per quarter, minimum royalty amounts due to us will be recorded as additional commercialization agreement revenue above these expected future GAAP and non-GAAP amounts, and they'll be recorded in the period that they are earned. In future periods, during the Collegium agreement, we do not expect to record any material NUCYNTA product sales revenue.

So with that discussion on NUCYNTA, I'll move onto the neurology portfolio. Gralise first quarter net sales were $14.8 million, down from $17.6 million in Q1 '17, cambia had first quarter net sales of $6.4 million, down from $7.2 million in Q1 '17, and Zipsor had first quarter net sales of $4.7 million, consistent with the performance in Q1, '17. I will remind folks on the call that first quarter is typically our weakest quarter for net sales, due to, among other things, insurance resets.

Comment on just our inventory situation. Days on hand at wholesalers at March 31, 2018 for our products were approximately the same as our year-end levels and averaged approximately 3 weeks. Cost of goods for the neurology portfolio in Q1, 2018 was approximately 8% of revenue and this is consistent with prior quarters.

Turning to first quarter expenses. GAAP selling, general and administrative expense was $29 million for the first quarter of 2017 -- of 2018, down significantly from $48.5 million in Q1, 2017. Non-GAAP SG&A expense, that is excluding stock-based compensation and contingent consideration, was $28.1 million for the first quarter of '18. GAAP and non-GAAP R&D expenses for the first quarter of 2018 were $1.5 million, down significantly from $5.1 million and $4.7 million in Q1, 2017. Our Q1 '18 expenses reflect certain timing delays in pediatric trials, and we expect R&D expenses to increase in future periods, in line with the lower end of our expense guidance for 2018.

Restructuring costs were $9 million in the first quarter and reflect costs associated with the reduction of headcount and associated move to Lake Forest, Illinois.

EBITDA for the quarter was $32 million, up from $25 million in Q1, 2017.

Moving on to the balance sheet. As of March 31, 2018 cash, cash equivalents and marketable securities were $102 million, a quarterly decrease of $26 million from year-end. The reduction in cash during the quarter was primarily due to reductions in short-term liabilities, payment of restructuring charges and the timing of receipts from the Collegium agreement. With respect to cash receipts from the Collegium agreement, we were entitled to $30.8 million in minimum royalties for the quarter. And as you may remember, we have a lockbox and cash sweep arrangement in place to secure those payments. However, in the transition to Collegium and the timing required for them to collect receivables relating to their sales, post-closing in January, we received $13 million during the quarter. A balance of $18 million has been received this month.

At quarter-end, we had $710 million of debt outstanding, consisting of $345 million of convertible debt and $365 million of secured debt. In April, we made a scheduled principal repayment of our secured debt of $57.5 million, reducing our secured debt to $307.5 million and reducing our total debt to $652.5 million.

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

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

Thanks, Augie. I think it's important that investors and analysts don't get too distracted by the technical accounting this quarter surrounding our Collegium transaction. Instead, focus on the fact that we are on track to deliver both our financial and strategic goals. We've derisked the portfolio through our agreement with Collegium. We are stabilizing our neurology business and expect better performance in the second half of the year. We're completing new business agreements that will supplement our growth now as well as support future growth. We're successfully transitioning to a new headquarters in Illinois, and already attracting strong industry talent. And we have a revitalized sales force that's ready to help us achieve our sales goals.

So with that said, I will now like to turn the call back to John to manage the question-and-answer session.

John B. Thomas - *Depomed, Inc. - Senior Vice President, Investor Relations and Corporate Communications*

Thanks, Arthur. Angela, we'll open up the call now for Q&A, please.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first 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 questions. First on Gralise. Yes, so it's been about 7 months since you restructured and upsized your sales force and script trends are still a bit weak. What gives you confidence that the sales force will become more effective in the second half? And then if trends remain weak, are there any levers that you have left to pull?

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

Yes, Dan. I mean, again, I think it's very important that people remember that the first thing you have to do when you have a brand or a franchise that's declining is stabilize. The neurology franchise clearly was impacted by the withdrawal of promotion last year. We began with our new sales force in September, so it's -- it really is effectively 6 months. And as I mentioned in my comments, Dan, it takes normally about 6 months before you start to see a new sales force initiative start to take traction. And we're very encouraged by the fact that the Gralise performance in the last 4 weeks has been the strongest since the field force began. So I think that gives us optimism that not only are we stabilizing the brand, but that we can achieve growth in the second half of the year. As to what we can do if that growth doesn't materialize as planned, I think first of all, as you probably saw in the first quarter, we are managing expenses, and I think, any shortfall in revenue would be compensated by expenses. But more importantly, we think that those opportunities, both in the way that we are communicating the benefits of Gralise being the first one to do gabapentin that truly offers night to day control of PHN with a unique mechanism of action, but also that there are opportunities for us to be, I think, a little more effective in the pull through of the excellent managed care coverage. We have over 80% of commercialize lives covered by Gralise. So I think both from an operational and from an expense perspective, we do have other levers we can pull in the second half of the year.

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

Okay. And then just a follow-up on NUCYNTA. I know it's still early in the agreement, but is there a scenario where you would consider monetizing that royalty stream? And how does Collegium's right terminate the deal affect your thinking around that?

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

Let me take the second part of that question first. As I sort of mentioned, and I think if any of you had a chance to listen to the Collegium call last evening, there is -- really, the partnership's got off to a good start. We have dealt with the impact of the supply disruption. And I think both companies are very confident that this can be a long and successful relationship. As to whether at some point we will -- we would consider monetizing that royalty, that's something that we will consider in the totality of a refinancing that we are looking at the second half of the year.

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*

Can you give us an update on where you are with the Purdue litigation, please?

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

Irina, this is Augie. The litigation is proceeding. We still do not have a formal trial date set by the judge. Our anticipation continues to be that we will have a trial in September time frame.

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

Okay. And can you just clarify what you meant about the pull through and managed care with Gralise? Just trying to understand what additional levers you have available to grow the product?

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

Yes. Irina, I'm really referring to the fact that we have this excellent coverage of over 80%. In fact, we won an exclusive contract with CVS last year for Gralise. And I think we've done a slightly better job of making sure that our sales organization is taking advantage of the fact that we have better coverage than our key competitor, Horizant.

Operator

(Operator Instructions) Your next question is from Ken Trbovich with Janney.

Kenneth Eugene Trbovich - *Janney Montgomery Scott LLC, Research Division - MD of Specialty Pharmaceuticals*

I just wanted to get a better understanding as to the line extension for Cambia. I guess, 2 points there. First is, when we talk about an easier formulation, are we talking about something like a sublingual formulation or a tablet form -- what direction are you heading there? And then second part of that is, does the guidance include a stocking order for that product? Or is that represent upside?

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

Ken, let me just clarify the second part. This is a product that we will not submit until next year, so we won't see revenues in that until 2020. But what -- if I can remind everybody that currently Cambia is administered in a liquid form, it's a sachet powder (corrected by company after the call). And one of the challenges is if you over dilute the product, you don't get the rapid efficacy, which is really the hallmark and what makes Cambia such an effective treatment for the acute phase of migraine. This will be a liquid premix that's ready to drink. So it will not only have convenience, but offer more a surety that you're going to get the full effect. And again, I was just at the National Headache Foundation dinner on Saturday evening and was speaking to quite a few neurologists who really do believe that Cambia has a significant role to play in the acute treatment of migraine, and this new presentation will be an added weapon in their armor material.

Kenneth Eugene Trbovich - *Janney Montgomery Scott LLC, Research Division - MD of Specialty Pharmaceuticals*

Terrific. And then last question. I know you've said you probably won't talk more about Cosyntropin in terms of the timing and details around the indication. But can you give us a sense as to whether or not, from a commercial perspective, you'll have some sort of feedback regarding that indication and how payers might consider the product relative to the competitive landscape?

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

Yes, Ken, I think as we discuss what that indication is, we'll also start to share little bit about how we see the commercial opportunity here. I would say that there have already been some analysts who have done some work in this space and identified that any new entrant even without a full set of labels could expect to get reasonably significant share of the (inaudible) business.

John B. Thomas - *Depomed, Inc. - Senior Vice President, Investor Relations and Corporate Communications*

Angella, any more questions?

Operator

No, sir. We have no further questions.

John B. Thomas - *Depomed, Inc. - Senior Vice President, Investor Relations and Corporate Communications*

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Okay. Well, we thank you, all, for joining us today on our conference call. We will have -- all the information is posted to our website. If you need any follow-up on that, please let us know. And then finally, Arthur would like to make a few closing comments.

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

Thanks, again, John. As I mentioned, we are on plan for Q1, and I would reiterate that the first part of the year has got off to a very good start, so thanks for joining today. And I'd also like to take this opportunity to thank all of the employees of Depomed who made a very positive contribution in the first quarter. We look forward to updating you as we continue to deliver on our stated milestones and hopefully, inform you of some new ones. So thanks, again, for joining us again today.

John B. Thomas - *Depomed, Inc. - Senior Vice President, Investor Relations and Corporate Communications*

Thanks, everybody. Thank you, Angela, for your help.

Operator

This does conclude today's earnings call. You may now disconnect.