AETERNA ZENTARIS
Aeterna Zentaris Reports Top-Line Results Conference Call
January-5-2017
Confirmation #13651438

Operator: Greetings and welcome to the Aeterna Zentaris Top-Line Results Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. If anyone should require Operator assistance during the conference, please press star, zero on your telephone keypad. As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Phil Theodore. Thank you. You may begin.

Philip Theodore: ... Good morning and welcome everyone. I am Philip Theodore, Senior Vice President and General Counsel of Aeterna Zentaris. I am the leader of today's call. With me are David Dodd, President and CEO; Dr. Richard Sachse, Senior Vice President, Chief Scientific

Officer and Chief Medical Officer, and Genevieve Lemaire, Vice President, Finance and Chief Accounting Officer.

During this call, we will be making forward looking statements regarding future events and the performance of Aeterna Zentaris and its business and product candidates, that involve risks and uncertainties that could cause actual events and results to differ materially. These risks are described in further detail in the Company's press releases and reports filed with the U.S. and Canadian Securities Regulatory Authorities. These forward looking statements represent the Company's judgment as of today, Thursday, January 5, 2017, and the Company disclaims any intent or obligation to update these forward-looking statements unless we are required to do so by applicable law or by a Securities Regulatory Authority. However, we may choose to update, and if we do so, we will disseminate the updates to the investing public.

It is now my pleasure to introduce the President and CEO of Aeterna Zentaris, David Dodd.

David Dodd: Good morning and thank you for joining us. After close of markets yesterday, we announced negative top-line results of our confirmatory Phase 3 trial of Macrilen for the evaluation of adult growth hormone deficiency. This is very disappointing news for us. Having

just received these data, we will focus on understanding the basis for not achieving our primary endpoints necessary to indicate success in the trial.

At this time, I will turn the call over to Dr. Richard Sachse who will comment on the top-line results, and we will then address any questions you may have. Richard?

Dr. Richard Sachse: Thank you, David, and good morning to everyone. As you may recall, the trial protocols for Macrilen consisted of each participant receiving the insulin tolerance test and the dose of Macrilen in a randomized order to validate Macrilen as a diagnostic measure of adult growth hormone deficiency by establishing the agreement in the outcome of both test procedures.

Overall, this study was conducted at 26 specialized endocrinology sites, 21 in Europe and 5 in the US. In the end, we enrolled 157 patients. Of those enrolled, four withdrew before completing the study. Of the subjects who completed both test procedures, 13 were not evaluable for the study based on a problem with the administration of the insulin tolerance test event leaving 140 patients who were fully irrelevant.

Under the study protocol, performance of Macrilen as a means of evaluating adult growth hormone deficiency will be considered to be acceptable in the lower bound of the two-sided 95% confidence interval for the primary efficacy variables is 75% or higher for percent negative agreement and 70% or higher for the percent positive agreement.

In layman terms, positive agreement means that if the evaluation of a patient with the insulin tolerance test results in the diagnosis of growth hormone deficiency, then evaluation of the same patient with Macrilen will result in the same diagnosis. So, a negative agreement both tests would result in rejection of the diagnosis.

In this study, the estimated percentage negative agreement and lower bound of the two-sided 95% confidence intervals were 93.9% and 85.2%, respectively, while the estimated percent positive agreement and the lower bound of the two-sided 95% confidence interval were 74.3% and 62.8%. Accordingly, with the lower bound of the percent positive agreement being less than 70%, the trial did not meet the predefined criteria of both negative agreement and positive agreement with the insulin tolerance test for successfully validating a single oral dose of Macrilen for evaluation of growth hormone deficiency. As David indicated, we are disappointed in these results and will now focus our attention to further understanding the basis for this outcome.

I will now turn the call back to David.

David Dodd: Thank you, Richard. At this time, my colleagues and I will answer your questions. I'm therefore turning the call over to the Operator for instructions on the question-and-answer period.

Operator: Thank you. We'll now be conducting a question-and-answer session. If you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. Once again, that's star, one to be placed in the question queue.

Our first question today is coming from Jason Kolbert from Maxim Group. Please proceed with your questions.

Jason Kolbert: Good morning guys. I am sorry to hear about Macrilen and of course our focus shifts to Zoptrex, but can you talk a little bit about the powering and what the statistical miss on

one side was by, how many patients? Maybe if you had 10 patients one way versus 10 patients another way it might have changed the outcome? In other words, I'm trying to understand how close was the outcome just because it would be interesting. We really want to wrap up Macrilen and kind of understand where it is. It's unfortunate for the drug and for patients, but help me understand from your preliminary analysis of the data how close you are.

Dr. Richard Sachse: I think, Jason, for this very relevant question, as we alluded to, we don't have a full understanding yet but in our preliminary understanding we just missed it very clearly in terms of the negative agreement. The study was planned to enroll at least 110 patients with 55 ending up in a positive insulin tolerance test and 55 ending up in a negative insulin tolerance test. In the end, we had a higher number. As I stated, we had 140 patients being fully evaluable, so this means it was not about the powering, it was some other means that we don't understand so far. So, even if we had 10 patients more, or whatever, we would still have missed this primary endpoint.

Jason Kolbert: Okay, so it sounds to me-that's good because it's always good to have a definitive result. So, if it wasn't about powering, and I realize you're just speculating, help me understand kind of why this data kind of failed to confirm some of the prior data sets? Can you speculate on what might have gone wrong here?

Dr. Richard Sachse: Well, it's a lot of speculation, but let me say it this way. In this study, we compared two tests, the insulin tolerance test versus our test, which wasn't done before, and the basis for the study was that the insulin tolerance test was defined as being-as providing the correct answer, whilst we still know that even the insulin tolerance test might not always be correct, but since there is no alternative means in coming up with a definitive diagnosis this was the basic assumption and then we just had to compare both tests in the outcome with-by predefining cutoff values and other things that might vary but again we need to first see the full analysis set before coming to a conclusive answer on all of these speculations. The study was adequately powered, so we just have to accept the results as they are.

Jason Kolbert: Okay, one last question, and thank you very much. David, we have some spending kind of built into our model as we had assumed commercialization and launch. So, I'm going to assume that in the near term your spending goes down because you're not going to be launching Macrilen so your cash runway is preserved. Is that fair to say?

David Dodd: To a lesser extent because we hadn't really started some of the spending we were going to start based upon the announcement of the top-line results. So, from the perspective of our current spending it isn't a great impact either way in all. What we had planned to do was

to build up the capabilities and be prepared to launch the product upon approval which we had anticipated would otherwise have been in fourth quarter, but what this allows us to do is probably look at some opportunity to consider some of the expenses to be utilized in support of the Zoptrex dossier preparation and all, but there's not really at this point an extensive amount of spending that was underway relative to Macrilen and all. It was going to start later in the year, starting in around April and then hitting again at around third quarter, at the beginning of that. So, it will enable us to look at those plans and probably benefit somewhat from a budgetary planning standpoint.

As Richard indicated, obviously, we just received these results. We don't even have all the data. We will receive those in the next couple of weeks. It'll be-fortunately given that this is 140 patients and there aren't multiple tests and all that, we will be able to review the data in a rather timely manner and provide some updates and feedback on what we learn about this. But as Richard says, the results are definitive. They are what they are. We had always felt that doing a comparison against the insulin tolerance test was a new way of evaluating our product as well as the fact that we would have to live with whatever result the ITT would provide was going to be assumed to be correct, and we're not disputing any of those were wrong, but we're just saying that it was the first time of a crossover comparison. In fact, I think what we have

learned is our sensitivity and specificity in this trial was greater than what we saw in the previous trial.

So, from that perspective, we were encouraged and all, but again our primary endpoints were to achieve these parameters these criteria in both percent negative agreement, which we did, which was fine, but as percent positive agreement we did not achieve that and it was based on the lower bound of the 95% confidence interval and we simply missed on that lower bound for the percent positive.

Jason Kolbert: Thank you, David. It sounds like-I'm keeping my fingers crossed on the outcome on the Zoptrex trial, but it may be that this is something that you can go back and revisit in the future depending on kind of the financial resources of the Company. That's what I hear you saying.

David Dodd: We will do a full post-mortem analysis of this and we will communicate to what extent we determine there is continued value to put attention to this compound or what decision we otherwise might reach.

Jason Kolbert: Thank you, David.

David Dodd: Okay.

Operator: Thank you. Our next question today is coming from RK (phon) from H.C. Wainwright. Please proceed with your question.

RK: Good morning, David. Good morning, Richard. I know it's a tough morning, but I want to understand a couple of things. When you're talking about the percent positive agreement, so did I hear this correctly that the insulin test, tolerance test showed 74.3% versus Macrilen, which showed 62.8%. Is that (inaudible)?

Dr. Richard Sachse: No. Percent positive agreement is defined in a way that if the insulin tolerance test comes up with a diagnosis of growth hormone deficiency, Macrilen would also come up with the same diagnosis, and then this is the basis really for calculating the percent positive agreement. So, in other words, it's the sum of all tests that are coming out with a positive insulin tolerance test, divided by the number of all tests with Macrilen whether they were positive or negative. So, the point estimate here and the agreement between both tests was 74% and the lower bound of the 95% confidence interval, based on the number of subjects enrolled in the study was 62.8%, and this was below the pre-specified limit.

RK: Okay. Okay, then my question is is this-was the insulin tolerance test acting normal in the sense where-was it within the limits that you normally would see it otherwise outside of this test in general-outside of this study, sorry?

Dr. Richard Sachse: That we don't know because as we alluded to, the study was defined in a manner that the insulin tolerance test would always provide the correct result and we would compare the Macrilen test with the results of the insulin tolerance test. So, as we stated, there were some patients who had-who were not fully evaluable because of problems in the administration of the insulin tolerance test and those obviously were excluded from the analysis. All of the patients that were included in the analysis had an evaluable insulin tolerance test as defined by a data review committee and as demonstrated by reaching hypoglycemia. So, this is the prerequisite for any insulin tolerance test being evaluable, and as I stated, this was valued for each of the insulin tolerance test, so it was just done in a normal manner.

RK: Hmm. Okay. So, what kind of analysis would you be doing to understand this further or is there-at this point you're not sure anything can be gotten out of this study at this point?

Dr. Richard Sachse: What we have so far is really the summary tables for the primary analysis. What we don't have yet is the individual data for each of the patients and what we don't have yet is how close are the results to the cutoff point, what the study looked like if the cutoff points would be different and all of these details. So, at this stage we really only have the overall summary tables and we need to go into detail and to see all of the individual patient results.

RK: So, when do you think you can get the full analysis done and you'll have an opportunity to talk with us about it?

Dr. Richard Sachse: As David stated, this will be over the next couple of weeks. When we receive the results then we need to dig into it. We will do a thorough post-mortem analysis. So, we will definitely also do additional statistical analysis and then we will communicate and update accordingly.

RK: Okay. David, a question for you on the commercial side of things. So, how does today's results impact your current commercial structure and also does it have any impact on the products that you're already commercializing?

David Dodd: At this stage it has no impact on the products we're currently commercializing or really on the structure. We've entered 2017, we'd gone through a process of reevaluating and preparing our sales force organization and had gone through a restructuring and optimization process. We did that during the end of fourth quarter and all. So, we've entered the year with 13 sales reps. You may recall previously we had 23. So, we have 13 sales reps, our two managers and our national sales director, and that is what we had started the year and we're planning to have and then we had planned to begin to ramp that up in the third quarter as we proceeded towards the approval and commercialization of Macrilen.

Obviously, those latter plans, as I mentioned on the previous question, we will reevaluate and all, but for what we currently are doing we are focused on Apifiny and on Saizen and we'll continue that for the foreseeable future, and our focus will be certainly on staying on top of what we'd learned in the near term about Zoptrex and then also-obviously maybe not more importantly, but importantly will be what we learn as we get into the data, in the actual data related to this trial we're talking about this morning.

RK: Okay, and-okay. Thank you. I think that's all the questions I have.

David Dodd: Thank you.

Operator: Thank you. We've reached the end of our question-and-answer session. I'd like to turn the floor back over to Mr. Dodd for any further closing comments.

David Dodd: Okay. Well thank you everyone, and for your attention. Obviously as we mentioned, we are disappointed in the results we've received. We'll keep you updated regarding any further information we learn regarding the trial and the performance of Macrilen and then the trial.

In the interim, we look forward to the upcoming completion of our Zoptrex pivotal trial which we anticipate will complete and for which we'll have top-line results in just a few months. Thank you for your continued and supportive interest in the transformation of Aeterna Zentaris. I look forward to updating you regarding our further progress when we discuss fourth quarter and full year 2016 results. Again, thank you and we look forward to following up with you in the near term.

Operator: Thank you. That does conclude today's teleconference. You may disconnect your lines at this time and have a wonderful day. We thank you for your participation today.