Q1 2008 Metabasis Therapeutics Earnings Conference Call - Final.

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OPERATOR: Good day, ladies and gentlemen, and welcome to the First Quarter 2008 Metabasis Therapeutics Earnings Conference Call.

(OPERATOR INSTRUCTIONS)

I would now like to turn the presentation over to your host for today's call, Ms. Connie Bienfait, vice president of investor relations and corporate communications. Please proceed.

CONNIE BIENFAIT, VP - IR & CORPORATE COMMUNICATIONS, METABASIS THERAPEUTICS, INC.: Thank you, Erica. Good afternoon and thank you all for joining us for a discussion of our first quarter 2008 results and recent events.

In a moment, Dr. Paul Laikind, our president and CEO, will go over the events of the quarter, recent significant events since the quarter ended and discuss some of our important goals for the remainder of the year. After Paul's remarks, [Dan Millis], our Senior Director of Finance, will provide a review of our first quarter financials. We will then take your questions. Dr. Mark Erion, Executive Vice President of Research and Development and our Chief Scientific Officer, as well as [Tricia Milliken], our Controller, are also here to help answer your questions.

Before we begin I'd like to remind everyone that this call may include forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors, which may cause our actual results to be materially different from historical results or from any results expressed or implied by the forward-looking statements. Please refer to our SEC filings for a more detailed discussion of these risks. This conference call is taking place on May 1st, 2008, at 4:30 p.m. Eastern Time. Please note that this information, including forward-looking statements, is accurate only as of this date.

You can access our first quarter earnings release on our website at www.mbasis.com. In addition, this conference call is being webcast through the Company's website and will be archived there for future reference.

In addition, Dr. Howard Foyt, our vice president of clinical development, is with us as well as Ed Baracchini, our senior vice president of business development. With that, I'll turn the call over to Paul.

PAUL LAIKIND, PRESIDENT, CEO, METABASIS THERAPEUTICS, INC.: Okay, thank you, Connie. So, as expected, 2008 is shaping up to be a pivotal year for Metabasis, with significant progress expected on many of our projects, including clinical trial results from both our core clinical stage candidates, progress in partnering discussions, and actions to bolster our balance sheet, all as part of our revised strategic plan. In fact, a great deal of progress has been made since our last quarterly call.

Before proceeding with an update on that progress, I'd like to note that we announced today that our CFO, John Beck, will be leaving Metabasis at the end of next week to pursue other opportunities in the industry. John joined us soon after Metabasis was established and quickly became our CFO. We've enjoyed and benefited from working with him over the past 20 years and wish him nothing but the best

enjoyed and benefited from working with him over the past 25 years and wish him nothing but the best with his next pursuit.

John leaves us in very capable hands of a competent finance team while we search for a successor. This afternoon the financial part of our update will be presented by Dan Millis, our Senior Director of Finance.

Now let me give you an update on the progress we have made since the beginning of the year, starting with our clinical stage pipeline. A major milestone was achieved last quarter with the on schedule completion of enrollment and dosing of the Phase IIa 28-day proof of concept trial for MB7803, our second generation FBPase inhibitor product candidate for the treatment of Type 2 diabetes.

This clinical trial was designed to provide evidence of safety and efficacy of MB7803 as an important new approach for treating patients with Type 2 diabetes. We reported earlier this week that this trial was successful, providing the first evidence for efficacy in patients. MB7803 met its primary efficacy endpoint, demonstrating a statistically and clinically significant reduction in fasting plasma glucose versus placebo at day 28.

Moreover, MB7803 was safe and well tolerated, with 94% of the patients completing the study, no patients withdrawing due to drug related adverse events. The overall adverse event profile was similar to that of placebo. Fasting lactate levels were within normal range and no patients experienced hyperlacticemia. These results were very encouraging and although this study was not designed to compare the efficacy with other approaches, the results suggest to us that the FBP approach may have the potential to achieve efficacy in line with current marketed therapies.

We plan to submit the full clinical trial results for presentation at the World Congress on Controversies to Consensus in Diabetes, Obesity and Hypertension, which is a meeting being held in Barcelona in late October.

With this new data in hand, we'll be reviewing our future development plans for 7803 to make sure we maximize the value of this potentially important new therapy. We are laying the foundation for initiation of a Phase IIb trial in 2009, which we currently plan to conduct in collaboration with a strategic partner. Between now and then we expect to initiate and complete additional clinical trials, including a Phase I trial evaluating the co-administration of MB7803 with metformin.

The successful MB7803 study is but the first of a series of important clinical milestones we hope to achieve this year. Hot on the heels of that news, we will be -- will be the safety and efficacy results from our novel treatment for hyperlipidemia that we believe has the potential to combine cholesterol lowering with reductions in triglycerides, liver fat and [LPa]. We have made good progress on MB7811 since our last report and we are currently wrapping up a Phase Ib trial that began in the second half of last year.

As previously reported, interim analysis of this trial after four doses showed that MB7811 to be safe and well tolerated and preliminary evaluation of the efficacy of the first four dose cohorts showed that the candidate reduced -- induced a clinically relevant reductions in LDL cholesterol and triglycerides compared to changes observed in patients treated with placebo.

Since we reported those interim results, we continued dose escalation and have now completed dosing in the seventh and final cohort. We expect to report final safety and efficacy results from the Phase Ib clinical trial later this quarter. We are now preparing to initiate a 12-week Phase IIa proof of concept clinical trial on schedule around midyear. In addition, we intend to initiate and complete a drug-drug interaction trial during the second half, with the goal of showing that MB7811 can be combined safely with a statin.

You may recall that we reported data in primates last year showing that 7811 had an additive benefit combined with a statin. This series of studies positions us to have a robust preclinical and clinical data package on MB7811 by early 2009.

Turning to our core preclinical programs, we continue to make excellent progress towards development of an orally active glucagon antagonist for the treatment of diabetes. Glucagon has long been considered an important target for treating diabetes and most companies targeting metabolic disease have a strong interest in this area. We believe that we are one of the leaders in this area and have identified and tested novel, potent, orally active glucagon receptor antagonists.

If all goes according to plan, we expect to recommend a candidate for clinical development in the second half of the year. A decision was made last year to establish a strategic collaboration on this program and, not surprisingly given the target, there has been a great deal of interest in the project from many pharmaceutical leaders.

We are also continuing to seek additional TR beta agonists as a backup and/or as a second generation candidate to MB7811 for the treatment of hyperlipidemia. In addition, our discovery group continues to seek additional new innovative treatments to help patients suffering with metabolic disorders. One of these projects being conducted in collaboration with Merck is seeking to discover and develop and commercialize activators of AMP-activated protein kinase for the treatment of Type 2 diabetes and possibly other metabolic diseases.

On April 23rd we announced a one-year extension of the research term of our collaboration with Merck. This collaboration, originally established in June 2005, entitled us to receive payments on achievement of

This collaboration, originally established in June 2005, entitled us to receive payments on achievement of certain preclinical and clinical milestones during development of the product candidate, royalties on net sales and an option to co-promote in the U.S. should a product candidate be commercialized. We've made excellent progress working with our colleagues at Merck on this project to discover a clinical candidate and look forward to continuing that progress over the coming year.

We are very busy on the business development front. In addition to discussions on a glucagon collaboration, which I already mentioned, we are continuing with plans to outlicense our non-core clinical stage candidate, MB7133 for primary liver cancer, and pradefovir for hepatitis B. We look forward to seeing development resume on these projects once suitable licensees are secured. We are also busy holding discussions with potential collaborators for MB7803 and with the results of the Phase IIa trial now available, we plan to expand those efforts considerably.

An important part of the strategic initiative we announced last year were plans to bolster our balance sheet while being sensitive to the dilutive effects on our shareholders. Since the beginning of the year we have completed a warrant restructuring transaction and associated pipe and a venture loan as part of that plan, increasing the resources we have available to progress to clinical development of 7803 and 7811. These activities along with the Merck extension, and partnering initiatives are keeping us in line with the plan that we announced.

Finally, we are very pleased to have Dr. Elizabeth Stoner appointed to the board of directors and our scientific advisory board. Dr. Stoner has an extensive and comprehensive background in clinical development, including over two decades at Merck, finishing her tenure there as a senior vice president for global clinical development operations responsible for over 2,100 employees in 40 countries.

She has worked extensively in the metabolic disease space, both in industry and as a practicing physician. We have no doubt that she will make an invaluable contribution to our preclinical and clinical development efforts as well as with our strategic collaborations. With that update I will now turn the call over to Dan to provide a financial review of the first quarter.

DAN MILLIS, SENIOR DIRECTOR OF FINANCE, METABASIS THERAPEUTICS, INC.: Thank you, Paul, and good afternoon, everyone. The following is a brief overview of our financial results for the first quarter of 2008 and certain recent events. We recorded revenue of $942,000 for the first quarter of 2008 compared with $3.4 million for the first quarter of 2007. The $2.5 million decrease was mainly due to the fact that no license [fees] from the Schering-Plough and Idenix collaborations were recognized in the 2008 period as compared to 2007, the last year for which license fees under these two collaborations were recognized.

Beginning January 1, 2008, we revised our estimate of the rate we use to allocate common expenses between research and development and general and administrative expense categories in order to more accurately reflect the actual consumption of these common expenses. In accordance with Generally Accepted Accounting Principles, we have accounted for this change in estimate on a prospective going-forward basis.

The effect of this change in estimate on the first quarter 2008 results was to increase research and development expenses and correspondingly decrease general and administrative expenses by $250,000 as compared to the previous allocation method. There was no overall impact on total operating expenses.

Accordingly, research and development expenses were $9.7 million for the first quarter of 2008 compared with $9.5 million for the first quarter of 2007. The $200,000 increase was mainly due to an increase in personnel and the aforementioned increase in allocated [occupancy] and information systems costs offset by a reduction in development expenses associated with our clinical stage programs.

General and administrative expenses were $2.5 million for the first quarter of 2008 compared with $3.3 million for the first quarter of 2007. The $745,000 decrease was primarily due to a decrease in personnel, professional services and allocated occupancy and information systems costs.

Stock-based compensation expense included in research and development and general and administrative expenses for the first quarter of 2008 was $590,000 and $393,000 respectively. Net interest income in the first quarter of 2008 was $222,000 compared to net interest income of $839,000 in the first quarter of 2007. The $617,000 decrease was primarily due to lower cash balances as compared to the prior year period.

Net loss for the first quarter of 2008 was $11.1 million, or $0.36 per share, compared to a net loss of $8.5 million, or $0.28 per share, for the first quarter of 2007. As of March 31st, 2008, we had $36.4 million in cash and cash equivalents and securities available for sale as compared to $42.4 million as of December 31st, 2007. The $6 million decrease was primarily due to the use of cash to fund ongoing operations offset by proceeds from our $5 million venture loan with Oxford Finance Corporation.

As you may recall, when we announced our revised strategic plan in late 2007, we indicated that we would be taking near term steps to bolster our balance sheet while minimizing dilution to our existing stockholders. We've recently completed three transactions to further this objective.

In March, as discussed previously, we entered into a $5 million venture loan with Oxford. On April 16th we further announced the successful completion of approximately a $10 million warrant exchange and concurrent private placement. And on April 23rd we announced that the research term of our AMPK

concurrent private placement. And on April 23rd we announced that the research term of our AMPK collaboration with Merck had been extended for an additional year, securing an additional $1.5 million.

These successful transactions not only demonstrated our ability to deliver on the promises of our strategic plan, they also provide us with the funding necessary to advance the further clinical development of our lead product candidates, MB07803 and MB07811 to greater value driving inflection points. I would now like to turn the call back over to the operator to take your questions.

OPERATOR: (OPERATOR INSTRUCTIONS). Our first question comes from the line of Salveen Kochnover from Jefferies & Co. Please proceed.

SALVEEN KOCHNOVER, ANALYST, JEFFERIES & CO.: Hey, guys. Good afternoon. Just wondering maybe, Paul, if you could give us just some insight into how the partnership discussions are progressing and maybe which product in particular is kind of the lead product here that you're looking in terms of progressing with a partner?

PAUL LAIKIND: Hi, Salveen. Yes, I think the partnerships -- we've got a number of efforts underway. I'd say a significant effort is on the glucagon partnership that I mentioned during the prepared remarks. We started that last year; we made the decision to do that and it's just turned out to be very exciting. Maybe I'll let Ed Baracchini in just a minute comment on the progress, which I think is quite good.

In terms of the other programs that we're working on, 7803 is certainly one that we have talked about that we're interested in establishing a partnership on. And we have at this point really been kind of opportunistic on that, talking to a couple of very interested partners that came to us. Now that we have the data in hand, it's our intention to kind of throw a broader net on that program and start talking a little more broadly on that. But I'd say that the couple that came to us are quite interested and we've done quite a bit of work already.

And then finally, the non-core area of 7133 and pradefovir, in both areas we're looking to license on and there is activity going on in those areas as well. So maybe I'll ask Ed just to comment maybe on glucagon briefly.

ED BARACCHINI, SVP - BUSINESS DEVELOPMENT, METABASIS THERAPEUTICS, INC.: Yes, in regards to glucagon, as Paul mentioned, there's a lot of interest there, several multinational (inaudible) are in discussions with us. And we're pretty confident that we're going to get a very attractive deal in the near future here.

PAUL LAIKIND: So, Salveen, the caveat I'd always add whenever I talk about partnering is it's one of those things where you can never predict 100%. But I think based on a lot of experience that we have in these types of discussions, I think it's going quite well and we think we got a good shot at getting something done there before too long.

SALVEEN KOCHNOVER: Okay. And what were the doses -- for 7811, what were the doses in the last two cohorts?

UNIDENTIFIED COMPANY REPRESENTATIVE: The doses were 20 mg and 40 mg.

PAUL LAIKIND: (inaudible - microphone inaccessible)

UNIDENTIFIED COMPANY REPRESENTATIVE: Yes. So we studied in that Phase Ib study from 0.25 mg all the way up to 40 mg.

SALVEEN KOCHNOVER: Okay. Thank you.

OPERATOR: Our next question comes from the line of Phil Nadeau with Cowen & Co. Please proceed.

PAUL LAIKIND: Hi, Phil.

PHIL NADEAU, ANALYST, COWEN & CO.: Hi. Good afternoon. Congratulations again on the good 7803 data.

PAUL LAIKIND: Thank you.

PHIL NADEAU: A question actually on the drug-drug interaction study with metformin. First is have you come up with a design for that...

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