

vTv Therapeutics Inc.
Form 10-Q
May 15, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2018

Or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 001-37524

vTv Therapeutics Inc.

(Exact name of registrant as specified in its charter)

Delaware	47-3916571
(State or other jurisdiction of	(I.R.S. Employer
incorporation or organization)	Identification No.)

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4170 Mendenhall Oaks Pkwy

High Point, NC 27265
(Address of principal executive offices) (Zip Code)

(336) 841-0300

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Class of Stock	Shares Outstanding as of May 15, 2018
Class A common stock, par value \$0.01 per share	9,729,946
Class B common stock, par value \$0.01 per share	23,094,221

vTv THERAPEUTICS INC. AND SUBSIDIARIES

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FOR THE QUARTER ENDED March 31, 2018

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PART I – FINANCIAL INFORMATION

The financial statements and other disclosures contained in this report include those of vTv Therapeutics Inc. (“we”, the “Company” or the “Registrant”), which is the registrant, and those of vTv Therapeutics LLC (“vTv LLC”), which is the principal operating subsidiary of the Registrant. Unless the context suggests otherwise, references in this Quarterly Report on Form 10-Q to the “Company”, “we”, “us” and “our” refer to vTv Therapeutics Inc. and its consolidated subsidiaries.

vTv Therapeutics Inc.

Condensed Consolidated Balance Sheets

(in thousands, except number of shares and per share data)

	March 31, 2018 (Unaudited)	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 6,535	\$ 11,758
Restricted cash and cash equivalents	—	162
Accounts receivable, net	210	8,000
Prepaid expenses and other current assets	471	442
Current deposits	2,256	—
Total current assets	9,472	20,362
Restricted cash and cash equivalents, long-term	2,500	2,500
Property and equipment, net	241	283
Long-term investments	2,480	2,480
Long-term deposits	36	2,292
Total assets	\$ 14,729	\$ 27,917
Liabilities, Redeemable Noncontrolling Interest and Stockholders' Deficit		
Current liabilities:		
Accounts payable and accrued expenses	\$ 11,296	\$ 13,901
Current portion of deferred revenue	8,754	8,757
Current portion of notes payable	6,771	4,271
Total current liabilities	26,821	26,929
Notes payable	13,091	15,316
Deferred revenue, net of current portion	2,436	4,497
Warrant liability, related party	517	492
Other liabilities	255	290
Total liabilities	43,120	47,524
Commitments and contingencies		
Redeemable noncontrolling interest	120,397	131,440
Stockholders' deficit:		
Class A Common Stock, \$0.01 par value; 100,000,000 shares authorized, 9,729,946 and 9,693,254 shares outstanding as of March 31, 2018 and December 31, 2017, respectively	97	97
Class B Common Stock, \$0.01 par value; 100,000,000 shares authorized, 23,094,221 and 23,119,246 shares outstanding as of March 31, 2018 and December 31, 2017, respectively	232	232
Additional paid-in capital	128,796	127,682

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Accumulated deficit	(277,913)	(279,058)
Total stockholders' deficit attributable to vTv Therapeutics Inc.	(148,788)	(151,047)
Total liabilities, redeemable noncontrolling interest and stockholders' deficit	\$ 14,729	\$ 27,917

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

vTv Therapeutics Inc.

Condensed Consolidated Statements of Operations - Unaudited

(in thousands, except number of shares and per share data)

	Three Months Ended March 31,	
	2018	2017
Revenue	\$2,064	\$30
Operating expenses:		
Research and development	8,943	10,960
General and administrative	2,255	2,824
Total operating expenses	11,198	13,784
Operating loss	(9,134)	(13,754)
Other income	36	—
Other expense – related party	(25)	—
Interest income	18	27
Interest expense	(855)	(559)
Loss before income taxes and noncontrolling interest	(9,960)	(14,286)
Income tax provision	—	—
Net loss before noncontrolling interest	(9,960)	(14,286)
Less: net loss attributable to noncontrolling interest	(7,008)	(10,066)
Net loss attributable to vTv Therapeutics Inc.	\$(2,952)	\$(4,220)
Net loss per share of vTv Therapeutics Inc. Class A Common		
Stock, basic and diluted	\$(0.30)	\$(0.44)
Weighted-average number of vTv Therapeutics Inc. Class A		
Common Stock, basic and diluted	9,699,721	9,693,254

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

vTv Therapeutics Inc.

Condensed Consolidated Statement of Changes in Redeemable Noncontrolling Interest and Stockholders' Deficit - Unaudited

(in thousands, except number of shares)

	Class A Common Stock		Class B Common Stock		Additional		Total	
	Redeemable Noncontrolling Interest	Shares	Amount	Shares	Amount	Paid-in Capital	Accumulated Deficit	Stockholders' Deficit
Balances at December 31, 2017	\$ 131,440	9,693,254	\$ 97	23,119,246	\$ 232	\$ 127,682	\$(279,058)	\$(151,047)
Net loss	(7,008)	—	—	—	—	—	(2,952)	(2,952)
Cumulative effect of accounting change	—	—	—	—	—	—	213	213
Share-based compensation	—	—	—	—	—	963	—	963
Exchange of Class B Common Stock for Class A Common Stock	(151)	25,025	—	(25,025)	—	151	—	151
Vesting of restricted stock units	—	11,667	—	—	—	—	—	—
Change in redemption value of noncontrolling interest	(3,884)	—	—	—	—	—	3,884	3,884
Balances at March 31, 2018	\$ 120,397	9,729,946	\$ 97	23,094,221	\$ 232	\$ 128,796	\$(277,913)	\$(148,788)

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

vTv Therapeutics Inc.

Condensed Consolidated Statements of Cash Flows - Unaudited

(in thousands)

	Three Months Ended March 31,	
	2018	2017
Cash flows from operating activities:		
Net loss before noncontrolling interest	\$(9,960)	\$(14,286)
Adjustments to reconcile net loss before noncontrolling interest to net cash used in operating activities:		
(Gain) loss on disposal of property and equipment, net	(12)	5
Depreciation expense	42	52
Share-based compensation expense	963	739
Change in fair value of warrants, related party	25	—
Amortization of debt discount	275	203
Changes in assets and liabilities:		
Accounts receivable	7,790	—
Prepaid expenses and other assets	(2,072)	(170)
Long-term deposits	2,256	(37)
Accounts payable and accrued expenses	(2,605)	(308)
Deferred revenue	(2,064)	(17)
Other liabilities	(35)	3
Net cash used in operating activities	(5,397)	(13,816)
Cash flows from investing activities:		
Proceeds from sale of assets	12	—
Purchases of property and equipment	—	(39)
Net cash provided by (used in) investing activities	12	(39)
Cash flows from financing activities:		
Proceeds from debt issuance	—	7,500
Net cash provided by financing activities	—	7,500
Net decrease in cash and cash equivalents	(5,385)	(6,355)
Total cash, cash equivalents and restricted cash and cash equivalents, beginning of period	14,420	51,505
Total cash, cash equivalents and restricted cash and cash equivalents, end of period	\$9,035	\$45,150
Non-cash activities:		
Change in redemption value of noncontrolling interest	\$(3,884)	\$29,210
Exchange of vTv Therapeutics Inc. Class B Common Stock and vTv Therapeutics, LLC member units for vTv Therapeutics Inc. Class A Common Stock	\$151	\$—

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

vTv Therapeutics Inc.

Notes to Condensed Consolidated Financial Statements – Unaudited

(dollar amounts are in thousands, unless otherwise noted)

Note 1: Description of Business, Basis of Presentation and Going Concern

Description of Business

vTv Therapeutics Inc. (the “Company,” the “Registrant,” “we” or “us”) was incorporated in the state of Delaware in April 2015. The Company was formed to discover and develop orally administered small molecule drug candidates to fill significant unmet medical needs.

Principles of Consolidation

vTv Therapeutics Inc. is a holding company and its principal asset is a controlling equity interest in vTv Therapeutics LLC (“vTv LLC”), the Company’s principal operating subsidiary, which is a clinical-stage biopharmaceutical company engaged in the discovery and development of orally administered small molecule drug candidates to fill significant unmet medical needs.

The Company has determined that vTv LLC is a variable-interest entity (“VIE”) for accounting purposes and that vTv Therapeutics Inc. is the primary beneficiary of vTv LLC because (through its managing member interest in vTv LLC and the fact that the senior management of vTv Therapeutics Inc. is also the senior management of vTv LLC) it has the power and benefits to direct all of the activities of vTv LLC, which include those that most significantly impact vTv LLC’s economic performance. vTv Therapeutics Inc. has therefore consolidated vTv LLC’s results pursuant to Accounting Standards Codification Topic 810, “Consolidation” in its condensed consolidated financial statements. As of March 31, 2018, various holders own non-voting interests in vTv LLC, representing a 70.4% economic interest in vTv LLC, effectively restricting vTv Therapeutics Inc.’s interest to 29.6% of vTv LLC’s economic results, subject to increase in the future, should vTv Therapeutics Inc. purchase additional non-voting common units (“vTv Units”) of vTv LLC, or should the holders of vTv Units decide to exchange such units (together with shares of Class B Common Stock) for shares of Class A Common Stock (or cash) pursuant to the Exchange Agreement (as defined in Note 8). vTv Therapeutics Inc. has provided financial and other support to vTv LLC in the form of its purchase of vTv Units with the net proceeds of the Company’s initial public offering (“IPO”) in 2015 and its agreeing to be a co-borrower under the Venture Loan and Security Agreement (the “Loan Agreement”) with Horizon Technology Finance Corporation and Silicon Valley Bank (together, the “Lenders”) which was entered into in 2016 and its entrance into the letter agreement, dated as of December 5, 2017, with MacAndrews and Forbes Group LLC (the “Letter Agreement”). vTv Therapeutics Inc. will not be required to provide financial or other support for vTv LLC outside of its obligations pertaining to the Loan Agreement as a co-borrower. However, vTv Therapeutics Inc. will control its business and other activities through its managing member interest in vTv LLC, and its management is the management of vTv LLC. The creditors of vTv LLC do not have any recourse to the general credit of vTv Therapeutics Inc. except as allowed under the provisions of the Loan Agreement. Nevertheless, because vTv Therapeutics Inc. will have no material assets other than its interests in vTv LLC, any financial difficulties at vTv LLC could result in vTv Therapeutics Inc. recognizing a loss.

Going Concern and Liquidity

To date, the Company has not generated any product revenue and has not achieved profitable operations. The continuing development of our drug candidates will require additional financing. From its inception through March 31, 2018, the Company has funded its operations primarily through a combination of private placements of preferred equity, research collaboration agreements, upfront and milestone payments for license agreements, debt and equity financings and the completion of its IPO in August 2015. As of March 31, 2018, the Company had an accumulated deficit of \$277.9 million and has generated net losses in each year of its existence. Management estimates that the cash and cash equivalents balance as of March 31, 2018 of \$6.5 million and the \$10.0 million of funds available under the Letter Agreement will allow the Company to continue its operations and activities for a period of less than twelve months from the issuance of these Condensed Consolidated Financial Statements.

Based on the Company's current operating plan, management believes that the current cash and cash equivalents will allow the Company to meet its liquidity requirements through June 2018. In April 2018, the Company announced that the results from Part A of the STEADFAST Study did not meet either co-primary efficacy endpoint. Based upon the Part A results, the Company announced that it is discontinuing current clinical studies involving azeliragon, including the open-label extension study and Part B of the STEADFAST Study. On May 9, 2018, the Company announced that based on post hoc analyses of the data from Part A of the STEADFAST Study, a subpopulation was identified that showed statistically significant benefit (unadjusted for multiple post hoc comparisons) from azeliragon relative to placebo on ADAS-cog. The identified subpopulation consisted of participants with peak azeliragon blood plasma concentration of less than 7.5 ng/mL. Based on the subpopulation data analyses from the Part A study and the prior azeliragon trials, the Company will submit a revised Statistical Analysis Plan (SAP) for the Part B Study that pre-specifies a

target population for the primary study analysis and expects to report Part B topline efficacy results based on 12-month data in June 2018.

Though the Company's expected cash needs for the foreseeable future have been significantly reduced with the discontinuation of the STEADFAST and open label extension studies, the Company will require additional financing to continue its operations. The Company is seeking possible additional partnering opportunities for our GKA, GLP-1r and other drug candidates which it believes may provide additional cash for use in its operations and the continuation of clinical trials for its drug candidates. The Company may also pursue other sources of financing to provide flexibility to its operating plan. The timing and availability of such financing is not yet known. The failure of Part A of the STEADFAST Study may make it more difficult for the Company to obtain such financing. These conditions raise substantial doubt about the Company's ability to continue as a going concern.

The Company's financial statements have been prepared assuming the Company will continue as a going concern, which contemplates, among other things, the realization of assets and satisfaction of liabilities in the normal course of business. The Condensed Consolidated Financial Statements do not include adjustments to reflect the possible future effects on the recoverability and classification of recorded assets or the amounts of liabilities that might be necessary should the Company be unable to continue as a going concern.

Note 2: Summary of Significant Accounting Policies Unaudited Interim Financial Information

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The accompanying Condensed Consolidated Balance Sheet as of March 31, 2018, Condensed Consolidated Statements of Operations for the three months ended March 31, 2018 and 2017, Condensed Consolidated Statement of Changes in Redeemable Noncontrolling Interest and Stockholders' Deficit for the three months ended March 31, 2018 and Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2018 and 2017 are unaudited. These unaudited financial statements have been prepared in accordance with the rules and regulations of the United States Securities and Exchange Commission ("SEC") for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. These financial statements should be read in conjunction with the audited financial statements and the accompanying notes for the year ended December 31, 2017 contained in the Company's Annual Report on Form 10-K. The unaudited interim financial statements have been prepared on the same basis as the annual financial statements and, in the opinion of management, reflect all adjustments (consisting of normal recurring adjustments) necessary to state fairly the Company's financial position as of March 31, 2018, the results of operations for the three months ended March 31, 2018 and 2017 and cash flows for the three months ended March 31, 2018 and 2017. The December 31, 2017 Condensed Consolidated Balance Sheet included herein was derived from the audited financial statements, but does not include all disclosures or notes required by GAAP for complete financial statements.

The financial data and other information disclosed in these notes to the financial statements related to the three months ended March 31, 2018 and 2017 are unaudited. Interim results are not necessarily indicative of results for an entire year.

The Company does not have any components of other comprehensive income recorded within its Condensed Consolidated Financial Statements, and, therefore, does not separately present a statement of comprehensive income

in its Condensed Consolidated Financial Statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

On an ongoing basis, the Company evaluates its estimates, including those related to the grant date fair value of equity awards, the fair value of warrants to purchase shares of its Class A Common Stock, the fair value of the Class B Common Stock, the useful lives of property and equipment, the fair value of derivative liabilities, and the fair value of the Company's debt, among others. The Company bases its estimates on historical experience and on various other assumptions that it believes to be reasonable, the results of which form the basis for making judgments about the carrying value of assets and liabilities.

Concentration of Credit Risk

Financial instruments that potentially expose the Company to concentrations of credit risk consist principally of cash on deposit with multiple financial institutions. The balances of these cash accounts frequently exceed insured limits.

The accounts receivable balances outstanding as of March 31, 2018 consisted of milestone payments receivable related to the Company's agreement with JDRF International ("JDRF"). The accounts receivable balance at December 31, 2017 related to an upfront payment received in the first quarter of 2018 pursuant to the Company's license agreement with Hangzhou Zhongmei Huadong Pharmaceutical Co., Ltd. ("Huadong").

Two and one customers represented 100% of the revenue earned during the three months ended March 31, 2018 and 2017, respectively.

Cash and Cash Equivalents

The Company considers any highly liquid investments with an original maturity of three months or less to be cash and cash equivalents.

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents as of December 31, 2017 was \$0.2 million. This amount has been received through a research, development and commercialization agreement with JDRF (the "JDRF Agreement") but has not yet been utilized to fund the development activities required under the JDRF Agreement. There were no amounts held as restricted cash and cash equivalents as of March 31, 2018 related to this agreement. Restricted cash and cash equivalents, long-term as of March 31, 2018 and December 31, 2017 was \$2.5 million at each date. These amounts relate to the minimum balance that the Company must maintain in a deposit account that is pledged to secure the Loan Agreement and is subject to an account control agreement pursuant to the Loan Agreement.

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the Condensed Consolidated Balance Sheets as of March 31, 2018 and December 31, 2017 that sum to the total of the same such amounts shown in the Condensed Consolidated Statements of Cash Flows (in thousands):

	March 31, 2018	December 31, 2017
Cash and cash equivalents	\$ 6,535	\$ 11,758
Restricted cash and cash equivalents	—	162
Restricted cash and cash equivalents, long-term	2,500	2,500
Total cash, cash equivalents and restricted cash and cash equivalents shown in the consolidated statement of cash flows	\$ 9,035	\$ 14,420

Investments

In connection with the License Agreement with Reneo Pharmaceuticals, Inc. ("Reneo") (the "Reneo License Agreement"), the Company received common stock and certain participation rights representing a minority equity interest in Reneo that