

---

---

**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 June 30, 2020

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: 001-33277

---

**MADRIGAL PHARMACEUTICALS, INC.**

(Exact name of registrant as specified in its charter)

---

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**04-3508648**  
(I.R.S. Employer  
Identification No.)

**Four Tower Bridge**  
**200 Barr Harbor Drive, Suite 200**  
**West Conshohocken, Pennsylvania**  
(Address of principal executive offices)

**19428**  
(Zip Code)

Registrant's telephone number, including area code: (267)824-2827

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

---

**Securities registered pursuant to Section 12(b) of the Act:**

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.0001 Par Value Per Share	MDGL	The NASDAQ Stock Market LLC

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 every Interactive Data File required to be submitted 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 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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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 7(a)(2)(B) of the Securities Act.

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

As of July 31, 2020, the registrant had 15,438,124 shares of common stock outstanding.

---

---

## MADRIGAL PHARMACEUTICALS, INC.

## TABLE OF CONTENTS

<u>Item</u>	<u>Description</u>	<u>Page</u>
	<b>Part I. Financial Information</b>	
Item 1.	<a href="#">Financial Statements (Unaudited):</a>	1
	<a href="#">Condensed Consolidated Balance Sheets at June 30, 2020 and December 31, 2019</a>	1
	<a href="#">Condensed Consolidated Statements of Operations for the Three Months and Six Months Ended June 30, 2020 and 2019</a>	2
	<a href="#">Condensed Consolidated Statements of Comprehensive Loss for the Three Months and Six Months Ended June 30, 2020 and 2019</a>	3
	<a href="#">Condensed Consolidated Statements of Stockholders' Equity for the Three Months and Six Months Ended June 30, 2020 and 2019</a>	4
	<a href="#">Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2020 and 2019</a>	5
	<a href="#">Notes to Condensed Consolidated Financial Statements</a>	6
Item 2.	<a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations</a>	12
Item 3.	<a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>	17
Item 4.	<a href="#">Controls and Procedures</a>	18
	<b>Part II. Other Information</b>	
Item 1.	<a href="#">Legal Proceedings</a>	19
Item 1A.	<a href="#">Risk Factors</a>	19
Item 2.	<a href="#">Unregistered Sales of Equity Securities and Use of Proceeds</a>	20
Item 3.	<a href="#">Defaults Upon Senior Securities</a>	20
Item 4.	<a href="#">Mine Safety Disclosures</a>	20
Item 5.	<a href="#">Other Information</a>	20
Item 6.	<a href="#">Exhibits</a>	20
	<a href="#">Signatures</a>	22

## PART I—FINANCIAL INFORMATION

## Item 1. Financial Statements.

**MADRIGAL PHARMACEUTICALS, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**(Unaudited; in thousands, except share and per share amounts)**

	June 30, 2020	December 31, 2019
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 61,867	\$ 46,697
Marketable securities	322,513	392,348
Prepaid expenses and other current assets	2,223	1,152
Total current assets	386,603	440,197
Property and equipment, net	1,265	1,184
Right-of-use asset	520	675
Total assets	<u>\$ 388,388</u>	<u>\$ 442,056</u>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 5,004	\$ 1,178
Accrued expenses	39,948	23,637
Lease liability	323	315
Total current liabilities	45,275	25,130
Long term liabilities:		
Lease liability	197	361
Total long term liabilities	197	361
Total liabilities	45,472	25,491
Stockholders' equity:		
Preferred stock, par value \$0.0001 per share authorized: 5,000,000 shares at June 30, 2020 and December 31, 2019; 1,969,797 shares issued and outstanding at June 30, 2020 and December 31, 2019	—	—
Common stock, par value \$0.0001 per share authorized: 200,000,000 at June 30, 2020 and December 31, 2019; 15,438,124 and 15,429,154 shares issued and outstanding at June 30, 2020 and December 31, 2019, respectively	2	2
Additional paid-in-capital	650,211	639,567
Accumulated other comprehensive gain	1,081	216
Accumulated deficit	(308,378)	(223,220)
Total stockholders' equity	342,916	416,565
Total liabilities and stockholders' equity	<u>\$ 388,388</u>	<u>\$ 442,056</u>

See accompanying notes to condensed consolidated financial statements.

**MADRIGAL PHARMACEUTICALS, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(Unaudited; in thousands, except share and per share amounts)**

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Revenues:				
Total revenues	\$ —	\$ —	\$ —	\$ —
Operating expenses:				
Research and development	44,688	15,594	78,088	27,967
General and administrative	5,639	7,110	10,244	12,856
Total operating expenses	50,327	22,704	88,332	40,823
Loss from operations	(50,327)	(22,704)	(88,332)	(40,823)
Interest income	1,204	3,005	3,074	6,044
Other income	100	—	100	—
Net loss	<u>\$ (49,023)</u>	<u>\$ (19,699)</u>	<u>\$ (85,158)</u>	<u>\$ (34,779)</u>
Net loss per common share:				
Basic and diluted net loss per common share	\$ (3.18)	\$ (1.28)	\$ (5.52)	\$ (2.26)
Basic and diluted weighted average number of common shares outstanding	15,433,348	15,368,986	15,431,251	15,366,738

See accompanying notes to condensed consolidated financial statements.

**MADRIGAL PHARMACEUTICALS, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**  
**(Unaudited; in thousands)**

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Net Loss	\$ (49,023)	\$ (19,699)	\$(85,158)	\$(34,779)
Other comprehensive income (loss):				
Unrealized gain on available-for-sale securities	666	307	865	804
Comprehensive loss	<u>\$ (48,357)</u>	<u>\$ (19,392)</u>	<u>\$(84,293)</u>	<u>\$(33,975)</u>

See accompanying notes to condensed consolidated financial statements.

**MADRIGAL PHARMACEUTICALS, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(Unaudited; in thousands, except share and per share amounts)

	Preferred stock		Common stock		Additional paid-in Capital	Accumulated other comprehensive income (loss)	Accumulated deficit	Total stockholders' equity
	Shares	Amount	Shares	Amount				
Balance at December 31, 2019	1,969,797	\$ —	15,429,154	\$ 2	\$639,567	\$ 216	\$ (223,220)	\$ 416,565
Compensation expense related to stock options for services	—	—	—	—	4,846	—	—	4,846
Unrealized gain on marketable securities	—	—	—	—	—	199	—	199
Net loss	—	—	—	—	—	—	(36,135)	(36,135)
Balance at March 31, 2020	1,969,797	\$ —	15,429,154	\$ 2	\$644,413	\$ 415	\$ (259,355)	\$ 385,475
Exercise of common stock options	—	—	8,970	—	109	—	—	109
Compensation expense related to stock options for services	—	—	—	—	5,689	—	—	5,689
Unrealized gain on marketable securities	—	—	—	—	—	666	—	666
Net loss	—	—	—	—	—	—	(49,023)	(49,023)
Balance at June 30, 2020	1,969,797	\$ —	15,438,124	\$ 2	\$650,211	\$ 1,081	\$ (308,378)	\$ 342,916
Balance at December 31, 2018	1,969,797	\$ —	15,409,023	\$ 2	\$616,573	\$ (319)	\$ (139,272)	\$ 476,984
Exercise of common stock options	—	—	8,041	—	83	—	—	83
Compensation expense related to stock options for services	—	—	—	—	6,022	—	—	6,022
Unrealized gain on marketable securities	—	—	—	—	—	497	—	497
Net loss	—	—	—	—	—	—	(15,080)	(15,080)
Balance at March 31, 2019	1,969,797	\$ —	15,417,064	\$ 2	\$622,678	\$ 178	\$ (154,352)	\$ 468,506
Exercise of common stock options	—	—	9,233	—	117	—	—	117
Compensation expense related to stock options for services	—	—	—	—	7,755	—	—	7,755
Unrealized gain on marketable securities	—	—	—	—	—	307	—	307
Net loss	—	—	—	—	—	—	(19,699)	(19,699)
Balance at June 30, 2019	1,969,797	\$ —	15,426,297	\$ 2	\$630,550	\$ 485	\$ (174,051)	\$ 456,986

See accompanying notes to condensed consolidated financial statements.

**MADRIGAL PHARMACEUTICALS, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited; in thousands)**

	<u>Six Months Ended June 30,</u>	
	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Net loss	\$ (85,158)	\$ (34,779)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation expense	10,535	13,777
Depreciation and amortization expense	240	56
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	(1,072)	(906)
Accounts payable	3,826	(2,041)
Accrued expense	16,311	5,607
Accrued interest, net of interest received on maturity of investments	554	268
Net cash used in operating activities	<u>(54,764)</u>	<u>(18,018)</u>
Cash flows from investing activities:		
Purchases of marketable securities	(153,869)	(266,116)
Sales and maturities of marketable securities	224,015	299,103
Purchases of property and equipment, net of disposals	(321)	(40)
Net cash provided by investing activities	<u>69,825</u>	<u>32,947</u>
Cash flows from financing activities:		
Proceeds from the sale of related party stock and exercise of common stock options, net of transaction costs	109	200
Net cash provided by financing activities	<u>109</u>	<u>200</u>
Net increase in cash and cash equivalents	15,170	15,129
Cash and cash equivalents at beginning of period	46,697	57,379
Cash and cash equivalents at end of period	<u>\$ 61,867</u>	<u>\$ 72,508</u>
Supplemental disclosure of cash flow information:		
Obtaining a right-of-use asset in exchange for a lease liability	\$ —	\$ 900

See accompanying notes to condensed consolidated financial statements.



**MADRIGAL PHARMACEUTICALS, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**1. Organization, Business, and Basis of Presentation**

**Organization and Business**

Madrigal Pharmaceuticals, Inc. (the “Company” or “Madrigal”) is a clinical-stage pharmaceutical company developing novel, high-quality, small-molecule drugs addressing major unmet needs in cardiovascular, metabolic, and liver diseases. The Company’s lead compound, MGL-3196 (resmetirom), is being advanced for non-alcoholic steatohepatitis (“NASH”), a liver disease that commonly affects people with metabolic diseases such as obesity and diabetes, and non-alcoholic fatty liver disease (“NAFLD”). The Company initiated two Phase 3 studies of resmetirom in NASH in 2019. The Company previously completed Phase 2 studies of resmetirom in NASH in May of 2018 and Heterozygous Familial Hypercholesterolemia in February of 2018.

**Basis of Presentation**

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) have been condensed or omitted. Accordingly, the unaudited condensed consolidated financial statements do not include all information and footnotes required by GAAP for complete annual financial statements. However, we believe that the disclosures included in these financial statements are adequate to make the information presented not misleading. The unaudited condensed financial statements, in the opinion of management, reflect all adjustments, which include normal recurring adjustments, necessary for a fair statement of such interim results. The interim results are not necessarily indicative of the results that we will have for the full year ending December 31, 2020 or any subsequent period. These unaudited condensed financial statements should be read in conjunction with the audited consolidated financial statements and the notes to those statements for the year ended December 31, 2019.

**2. Summary of Significant Accounting Policies**

**Principle of Consolidation**

The consolidated financial statements include the financial statements of the Company and its wholly owned subsidiaries. All significant intercompany balances have been eliminated in consolidation.

**Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities, and the reported amounts of revenues and expenses during the reporting periods. The Company bases its estimates on historical experience and various other assumptions that management believes to be reasonable under the circumstances. Changes in estimates are recorded in the period in which they become known. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

The Company considers all highly liquid investments with original maturities of six months or less at the date of purchase to be cash equivalents. The Company maintains its cash in bank accounts, the balance of which, at times, exceeds Federal Deposit Insurance Corporation insured limits.

The primary objective of the Company’s investment activities is to preserve its capital for the purpose of funding operations and the Company does not enter into investments for trading or speculative purposes. The Company’s cash is deposited in highly rated financial institutions in the United States. The Company invests in money market funds and high-grade, commercial paper and corporate bonds, which management believes are subject to minimal credit and market risk.

**Marketable Securities**

Marketable securities consist of investments in high-grade corporate obligations and government and government agency obligations that are classified as available-for-sale. Since these securities are available to fund current operations, they are classified as current assets on the consolidated balance sheets.

The Company adjusts the cost of available-for-sale debt securities for amortization of premiums and accretion of discounts to maturity. The Company includes such amortization and accretion as a component of interest income, net. Realized gains and losses and declines in value, if any, that the Company judges to be other-than-temporary on available-for-sale securities are reported as a

## [Table of Contents](#)

component of interest income, net. To determine whether an other-than-temporary impairment exists, the Company considers whether it intends to sell the debt security and, if the Company does not intend to sell the debt security, it considers available evidence to assess whether it is more likely than not that it will be required to sell the security before the recovery of its amortized cost basis. During the six months ended June 30, 2020 and 2019, the Company determined it did not have any securities that were other-than-temporarily impaired.

Marketable securities are stated at fair value, including accrued interest, with their unrealized gains and losses included as a component of accumulated other comprehensive income or loss, which is a separate component of stockholders' equity. The fair value of these securities is based on quoted prices and observable inputs on a recurring basis. Realized gains and losses are determined on the specific identification method. During the six months ended June 30, 2020 and 2019, the Company did not have any realized gains or losses on marketable securities.

### **Fair Value of Financial Instruments**

The carrying amounts of the Company's financial instruments, which include cash equivalents, and marketable securities, approximate their fair values. The fair value of the Company's financial instruments reflects the amounts that would be received upon sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy has the following three levels:

Level 1—quoted prices in active markets for identical assets and liabilities.

Level 2—observable inputs other than Level 1 inputs. Examples of Level 2 inputs include quoted prices in active markets for similar assets or liabilities and quoted prices for identical assets or liabilities in markets that are not active.

Level 3—unobservable inputs that reflect the Company's own assumptions about the assumptions market participants would use in pricing the asset or liability.

Financial assets and liabilities are classified in their entirety within the fair value hierarchy based on the lowest level of input that is significant to the fair value measurement. The Company measures the fair value of its marketable securities by taking into consideration valuations obtained from third-party pricing sources. The pricing services utilize industry standard valuation models, including both income and market based approaches, for which all significant inputs are observable, either directly or indirectly, to estimate fair value. These inputs include reported trades of and broker-dealer quotes on the same or similar securities, issuer credit spreads, benchmark securities and other observable inputs.

As of June 30, 2020, the Company's financial assets valued based on Level 1 inputs consisted of cash and cash equivalents in a money market fund, its financial assets valued based on Level 2 inputs consisted of high-grade corporate and government agency bonds and commercial paper, and it had no financial assets valued based on Level 3 inputs. During the six months ended June 30, 2020 and 2019, the Company did not have any transfers of financial assets between Levels 1 and 2. As of June 30, 2020 and December 31, 2019, the Company did not have any financial liabilities that were recorded at fair value on a recurring basis on the balance sheet.

### **Research and Development Costs**

Research and development costs are expensed as incurred. Research and development costs are comprised of costs incurred in performing research and development activities, including internal costs (including stock-based compensation), costs for consultants, milestone payments under licensing agreements, and other costs associated with the Company's preclinical and clinical programs. In particular, the Company has conducted safety studies in animals, optimized and implemented the manufacturing of our drug, and conducted Phase 1-3 clinical trials, all of which are considered research and development expenditures. Management uses significant judgment in estimating the amount of research and development costs recognized in each reporting period. Management analyzes and estimates the progress of its preclinical studies and clinical trials, completion of milestones events per underlying agreements, invoices received and contracted costs when estimating the research and development costs to accrue in each reporting period. Actual results could differ from the Company's estimates.

### **Patents**

Costs to secure and defend patents are expensed as incurred and are classified as general and administrative expense in the Company's consolidated statements of operations.

### **Stock-Based Compensation**

The Company recognizes stock-based compensation expense based on the grant date fair value of stock options granted to employees, officers, and directors. The Company uses the Black-Scholes option pricing model to determine the grant date fair value as management believes it is the most appropriate valuation method for its option grants. The Black-Scholes model requires inputs for

## [Table of Contents](#)

risk-free interest rate, dividend yield, volatility and expected lives of the options. The expected lives for options granted represent the period of time that options granted are expected to be outstanding. The Company uses the simplified method for determining the expected lives of options. Expected volatility is based upon an industry estimate or blended rate including the Company's historical trading activity. The risk-free rate for periods within the expected life of the option is based on the U.S. Treasury yield curve in effect at the time of the grant. The Company estimates the forfeiture rate based on historical data. This analysis is re-evaluated at least annually and the forfeiture rate is adjusted as necessary.

Certain of the employee stock options granted by the Company are structured to qualify as incentive stock options ("ISOs"). Under current tax regulations, the Company does not receive a tax deduction for the issuance, exercise or disposition of ISOs if the employee meets certain holding requirements. If the employee does not meet the holding requirements, a disqualifying disposition occurs, at which time the Company may receive a tax deduction. The Company does not record tax benefits related to ISOs unless and until a disqualifying disposition is reported. In the event of a disqualifying disposition, the entire tax benefit is recorded as a reduction of income tax expense. The Company has not recognized any income tax benefit for its share-based compensation arrangements due to the fact that the Company does not believe it is more likely than not it will realize the related deferred tax assets.

### **Income Taxes**

The Company uses the asset and liability method to account for income taxes. Deferred tax assets and liabilities are determined based on the expected future tax consequences of temporary differences between the Company's financial statement carrying amounts and the tax basis of assets and liabilities using enacted tax rates expected to be in effect in the years in which the differences are expected to reverse. The Company currently maintains a 100% valuation allowance on its deferred tax assets.

### **Comprehensive Loss**

Comprehensive loss is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. Changes in unrealized gains and losses on marketable securities represent the only difference between the Company's net loss and comprehensive loss.

### **Basic and Diluted Loss Per Common Share**

Basic net loss per share is computed using the weighted average number of common shares outstanding during the period, excluding restricted stock that has been issued but is not yet vested. Diluted net loss per common share is computed using the weighted average number of common shares outstanding and the weighted average dilutive potential common shares outstanding using the treasury stock method. However, for the six months ended June 30, 2020 and 2019, diluted net loss per share is the same as basic net loss per share because the inclusion of weighted average shares of unvested restricted common stock, common stock issuable upon the exercise of stock options, and common stock issuable upon the conversion of preferred stock would be anti-dilutive.

The following table summarizes outstanding securities not included in the computation of diluted net loss per common share, as their inclusion would be anti-dilutive:

	<b>Six Months Ended June 30,</b>	
	<b>2020</b>	<b>2019</b>
Common stock options	1,820,142	1,454,844
Unvested restricted common stock	—	52,063
Preferred stock	1,969,797	1,969,797

### **Recent Accounting Pronouncements**

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments," which requires all or a portion of the amortized cost basis of a financial asset to be written off when it is deemed uncollectible. For public business entities that do not qualify as a smaller reporting company, ASU 2016-13 is effective for annual and interim reporting periods beginning after December 15, 2019. The Company adopted ASU 2016-13 effective January 1, 2020. There was no significant impact from the adoption.

### **3. Liquidity and Uncertainties**

The Company is subject to risks common to development stage companies in the biopharmaceutical industry including, but not limited to, uncertainty of product development and commercialization, dependence on key personnel, uncertainty of market acceptance of products and product reimbursement, product liability, uncertain protection of proprietary technology, potential inability to raise additional financing necessary for development and commercialization, and compliance with the U.S. Food and Drug Administration and other government regulations.

## [Table of Contents](#)

The Company has incurred losses since inception, including approximately \$85.2 million for the six months ended June 30, 2020, resulting in an accumulated deficit of approximately \$308.4 million as of June 30, 2020. Management expects to incur losses for the foreseeable future. To date, the Company has funded its operations primarily through proceeds from sales of the Company's common and Series A Convertible Preferred Stock.

The Company believes that its cash, cash equivalents and marketable securities at June 30, 2020 will be sufficient to fund operations past one year from the issuance of these financial statements. To meet its future capital needs, the Company intends to raise additional capital through debt or equity financings, collaborations, partnerships or other strategic transactions. However, there can be no assurance that the Company will be able to complete any such transactions on acceptable terms or otherwise. The inability of the Company to obtain sufficient funds on acceptable terms when needed could have a material adverse effect on the Company's business, results of operations and financial condition. The Company has the ability to delay certain research activities and related clinical expenses if necessary due to liquidity concerns until a date when those concerns are relieved.

#### 4. Cash, Cash Equivalents and Marketable Securities

A summary of cash, cash equivalents and available-for-sale marketable securities held by the Company as of June 30, 2020 and December 31, 2019 is as follows (in thousands):

	June 30, 2020			
	Cost	Unrealized gains	Unrealized losses	Fair value
Cash and cash equivalents:				
Cash (Level 1)	\$ 2,668	\$ —	\$ —	\$ 2,668
Money market funds (Level 1)	42,952	—	—	42,952
Corporate debt securities due within 3 months of date of purchase (Level 2)	16,247	—	—	16,247
Total cash and cash equivalents	61,867	—	—	61,867
Marketable securities:				
Corporate debt securities due within 1 year of date of purchase (Level 2)	268,946	993	(6)	269,933
U.S. government and government sponsored entities due within 1 year of date of purchase (Level 2)	48,470	92	—	48,562
Corporate debt securities due within 1 to 2 years of date of purchase (Level 2)	4,016	4	(2)	4,018
Total cash, cash equivalents and marketable securities	<u>\$ 383,299</u>	<u>\$ 1,089</u>	<u>\$ (8)</u>	<u>\$ 384,380</u>
	December 31, 2019			
	Cost	Unrealized gains	Unrealized losses	Fair value
Cash and cash equivalents:				
Cash (Level 1)	\$ 1,772	\$ —	\$ —	\$ 1,772
Money market funds (Level 1)	44,925	—	—	44,925
Corporate debt securities due within 3 months of date of purchase (Level 2)	—	—	—	—
Total cash and cash equivalents	46,697	—	—	46,697
Marketable securities:				
Corporate debt securities due within 1 year of date of purchase (Level 2)	309,365	220	(40)	309,545
Corporate debt securities due within 1 to 2 years of date of purchase (Level 2)	82,767	39	(3)	82,803
Total cash, cash equivalents and marketable securities	<u>\$ 438,829</u>	<u>\$ 259</u>	<u>\$ (43)</u>	<u>\$ 439,045</u>

## [Table of Contents](#)

### 5. Accrued Liabilities

Accrued liabilities as of June 30, 2020 and December 31, 2019 consisted of the following (in thousands):

	June 30, 2020	December 31, 2019
Accrued contract research costs	\$ 32,202	\$ 13,775
Compensation and benefits	1,917	2,779
Professional fees	862	1,177
Other	4,967	5,906
	<u>\$ 39,948</u>	<u>\$ 23,637</u>

### 6. Stockholders' Equity

#### Common Stock

Each common stockholder is entitled to one vote for each share of common stock held. Each share of common stock is entitled to receive dividends, as and when declared by the Company's board of directors.

The Company has never declared cash dividends on its common stock and does not expect to do so in the foreseeable future.

#### Preferred Stock

The Series A Preferred Stock has a par value of \$0.0001 per share and is convertible into shares of the common stock at a one-to-one ratio, subject certain limitations and to adjustment provisions as provided in the Certificate of Designation of Preferences, Rights and Limitations of Series A Convertible Preferred Stock, that the Company filed with the Secretary of State of the State of Delaware on June 21, 2017 (the "Series A Certificate"). The terms of the Series A Preferred Stock are set forth in the Series A Certificate. Upon any liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, after the satisfaction in full of the debts of the Company and the payment of any liquidation preference owed to the holders of shares of capital stock of the Company ranking prior to the Series A Preferred Stock upon liquidation, the holders of the Series A Preferred Stock shall participate pari passu with the holders of the Common Stock (on an as-if-converted-to-Common-Stock basis) in the net assets of the Company. Shares of the Series A Preferred Stock will generally have no voting rights, except as required by law. Shares of the Series A Preferred Stock will be entitled to receive dividends before shares of any other class or series of capital stock of the Company (other than dividends in the form of the Common Stock) generally equal to the dividend payable on each share of the Common Stock, on an as-converted basis.

### 7. Stock-based Compensation

The 2015 Stock Plan, as amended, is our primary plan through which equity based grants are awarded. We ceased making new awards under the 2006 Stock Plan upon adoption of the 2015 Stock Plan. The 2015 Stock Plan provides for the grant of incentive stock options, non-statutory stock options, restricted stock and other stock-based compensation awards to employees, officers, directors, and consultants of the Company. The administration of the 2015 Stock Plan is under the general supervision of the Compensation Committee of the Board of Directors. The terms of stock options awarded under the 2015 Stock Plan, in general, are determined by the Compensation Committee, provided the exercise price per share generally shall not be set at less than the fair market value of a share of the common stock on the date of grant and the term shall not be greater than ten years from the date the option is granted. As of June 30, 2020, the Company had options outstanding to purchase 1,820,142 shares of its common stock, which includes options outstanding under its 2006 Stock Plan. As of June 30, 2020, 984,220 shares were available for future issuance.

The following table summarizes stock option activity during the six months ended June 30, 2020:

	Shares	Weighted average exercise price
Outstanding at January 1, 2020	1,461,987	\$ 64.67
Options granted	381,125	88.04
Options exercised	(8,970)	12.19
Options cancelled	(14,000)	80.99
Outstanding at June 30, 2020	<u>1,820,142</u>	<u>\$ 69.70</u>
Exercisable at June 30, 2020	1,123,761	\$ 51.06

## [Table of Contents](#)

The total cash received by the Company as a result of stock option exercises was \$0.1 million and \$0.2 million, respectively, for the six months ended June 30, 2020 and 2019. The weighted-average grant date fair values, based on the Black-Scholes option model, of options granted during the six months ended June 30, 2020 and 2019 were \$64.74 and \$92.97, respectively.

### Stock-Based Compensation Expense

Stock-based compensation expense during the six months ended June 30, 2020 and 2019 was as follows (in thousands):

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Stock-based compensation expense by type of award:				
Stock options	\$ 5,689	\$ 7,632	\$ 10,535	\$ 13,533
Restricted stock	—	123	—	244
Total stock-based compensation expense	<u>\$ 5,689</u>	<u>\$ 7,755</u>	<u>\$ 10,535</u>	<u>\$ 13,777</u>
Effect of stock-based compensation expense by line item:				
Research and development	\$ 2,289	\$ 2,366	\$ 4,367	\$ 4,243
General and administrative	3,400	5,389	6,168	9,534
Total stock-based compensation expense included in net loss	<u>\$ 5,689</u>	<u>\$ 7,755</u>	<u>\$ 10,535</u>	<u>\$ 13,777</u>

Unrecognized stock-based compensation expense on stock options as of June 30, 2020 was \$44.6 million with a weighted average remaining period of 2.8 years.

### 8. Commitments and Contingencies

The Company has a Research, Development and Commercialization Agreement with Hoffmann-La Roche (“Roche”) which grants the Company a sole and exclusive license to develop, use, sell, offer for sale and import any Licensed Product as defined by the agreement.

The agreement requires future milestone payments to Roche. Remaining milestones under the agreement total \$8 million and are earned by achieving specified objectives related to future regulatory approval in the United States and Europe of a product developed from resmetirom. A single-digit royalty payment range is based on net sales of products developed from resmetirom, subject to certain reductions. Except as described above, the Company has not achieved any additional product development or regulatory milestones and had no Licensed Product sales for the six months ended June 30, 2020 and 2019.

The Company has entered into customary contractual arrangements and letters of intent in support of its Phase 3 clinical trials.

## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains “forward-looking statements” made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, that are based on our beliefs and assumptions and on information currently available to us, but are subject to factors beyond our control. Forward-looking statements include but are not limited to statements or references concerning: our clinical trials; research and development activities; the timing and results associated with the future development of our lead product candidate, MGL-3196 (resmetirom); our primary and secondary study endpoints for resmetirom and the potential for achieving such endpoints and projections; optimal dosing levels for resmetirom; projections regarding potential future NASH resolution, safety, fibrosis treatment, cardiovascular effects, lipid treatment or biomarker effects with resmetirom; the predictive power of liver fat reduction on NASH resolution with fibrosis reduction; the achievement of enrollment objectives concerning patient number, safety database and/or timing for our studies; potential NASH or NAFLD patient risk profile benefits with resmetirom; our possible or assumed future results of operations and expenses, business strategies and plans, capital needs and financing plans, trends, market sizing, competitive position, industry environment and potential growth opportunities, among other things. Forward-looking statements: reflect management’s current knowledge, assumptions, judgment and expectations regarding future performance or events; include all statements that are not historical facts; and can be identified by terms such as “anticipates,” “be,” “believes,” “continue,” “could,” “demonstrates,” “design,” “estimates,” “expects,” “forecasts,” “future,” “hopeful,” “goal,” “intends,” “may,” “might,” “plans,” “potential,” “predicts,” “predictive,” “projects,” “seeks,” “should,” “will,” “would” or similar expressions and the negatives of those terms. Although management presently believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to be correct and you should be aware that actual results could differ materially from those contained in the forward-looking statements.

Forward-looking statements are subject to a number of risks and uncertainties including, but not limited to: our clinical development of resmetirom; enrollment uncertainties, generally and in relation to COVID-19 quarantine, shelter-in-place and social distancing measures and individual precautionary measures that may be implemented or continued for an uncertain period of time; outcomes or trends from competitive studies; the risks of achieving potential benefits in studies that includes substantially more patients than our prior studies; the timing and outcomes of clinical studies of resmetirom; and the uncertainties inherent in clinical testing. Undue reliance should not be placed on forward-looking statements, which speak only as of the date they are made. Madrigal undertakes no obligation to update any forward-looking statements to reflect new information, events or circumstances after the date they are made, or to reflect the occurrence of unanticipated events. Please refer to Madrigal’s filings with the U.S. Securities and Exchange Commission for more detailed information regarding these risks and uncertainties and other factors that may cause actual results to differ materially from those expressed or implied. We specifically discuss these risks and uncertainties in greater detail in the “Risk Factors” appearing in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2019 and Part II, Item 1A of this Quarterly Report on Form 10-Q for the period ended June 30, 2020, as well as in our other filings with the SEC.

### **Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.**

*The consolidated financial statements, included elsewhere in this Quarterly Report on Form 10-Q, and this Management’s Discussion and Analysis of Financial Condition and Results of Operations should be read together with our audited financial statements and accompanying notes for year ended December 31, 2019 and the related Management’s Discussion and Analysis of Financial Condition and Results of Operations, both of which are included in our Annual Report on Form 10-K. In addition to historical information, this discussion and analysis contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, that involve risks and uncertainties, such as statements of our plans, objectives, expectations and intentions. As disclosed in this report, our actual results could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in the sections entitled “Special Note Regarding Forward-Looking Statements” and “Risk Factors” included elsewhere in this report. Our operating results are not necessarily indicative of results that may occur for the full fiscal year or any other future period.*

### **About Madrigal Pharmaceuticals, Inc.**

*Our Focus.* We are a clinical-stage biopharmaceutical company focused on the development and commercialization of innovative therapeutic candidates for the treatment of cardiovascular, metabolic, and liver diseases. Our lead product candidate, MGL-3196 (resmetirom), is a proprietary, liver-directed, selective thyroid hormone receptor- $\beta$ , or THR- $\beta$ , agonist being developed as a once-daily oral pill that can potentially be used to treat a number of disease states with high unmet medical need, including non-alcoholic steatohepatitis, or NASH.

*Our Patient Market Opportunity.* NASH is a serious inflammatory form of nonalcoholic fatty liver disease, or NAFLD. NAFLD has become the most common liver disease in the United States and other developed countries and is characterized by an accumulation of fat in the liver with no other apparent causes. NASH can progress to cirrhosis or liver failure, require liver transplantation and can also result in liver cancer. Progression of NASH to end stage liver disease will soon surpass all other causes of liver failure requiring liver

## [Table of Contents](#)

transplantation. Importantly, beyond these critical conditions, NASH and NAFLD patients additionally suffer heightened cardiovascular risk and, in fact, die more frequently from cardiovascular events than from liver disease. NASH and NAFLD have grown as a consequence of rising worldwide obesity-related disorders. In the United States alone, NAFLD is estimated to affect approximately 27% to 34% of the population, or an estimated 86 million to 108 million people, and approximately 10% to 20% of this population is projected to progress from NAFLD to NASH. Current estimates place NASH prevalence at approximately 9 million to 15 million people in the United States, or three percent to five percent of the population, with similar prevalence in Europe and Asia.

*Our Completed Studies.* For NASH, we enrolled 125 patients in a Phase 2 clinical trial with resmetirom. We achieved the 12-week primary endpoint for this Phase 2 clinical trial and reported the results in December 2017, and we reported positive topline 36-week results at the conclusion of the Phase 2 clinical trial in May 2018. We have completed treatment in a 36-week, open-label extension study in 31 participating NASH patients from our Phase 2 clinical trial, which includes 14 patients who received placebo in the main study. We also completed a 116 patient Phase 2 clinical trial and announced results in February 2018 for the use of resmetirom in patients with heterozygous familial hypercholesterolemia, or HeFH. In addition to the NASH and HeFH Phase 2 clinical trials, resmetirom has also been studied in eight completed Phase 1 trials in a total of 219 subjects. Resmetirom appeared to be safe and was well-tolerated in these trials, which included a single ascending dose trial, a multiple ascending dose trial, two drug interaction trials with statins, a multiple dose mass balance study, a single dose relative bioavailability study of tablet formulation versus capsule formulation, a multiple dose drug interaction study, and a multiple dose drug interaction with food effect study.

*Our Ongoing and Planned Studies.* On March 28, 2019, the Company announced that it had initiated MAESTRO-NASH, a Phase 3 trial in NASH with its once daily, oral thyroid hormone receptor beta selective agonist, resmetirom. This double-blind, placebo-controlled study will be conducted at more than 150 sites in the United States and the rest of the world. Patients with liver biopsy confirmed NASH with stage 2 or 3 fibrosis will be randomized 1:1:1 to receive a single oral daily dose of placebo, resmetirom 80 mg or resmetirom 100 mg. A second liver biopsy at week 52 in the first 900 patients will be the basis of filing for subpart H-accelerated approval; the primary endpoint will be the percent of patients treated with either dose of resmetirom as compared with placebo who achieve NASH resolution on the week 52 liver biopsy, defined as the absence of hepatocyte ballooning (score=0), and minimal lobular inflammation (score 0-1), associated with at least a 2-point reduction in NAS (NAFLD Activity Score), and no worsening of fibrosis stage. Two key secondary endpoints are reduction in LDL-cholesterol and a 1-point or more improvement in fibrosis stage on the week 52 biopsy with no worsening of NASH. Patients will continue in the study for a total of approximately 54 months, and will be evaluated for a composite clinical outcome including cirrhosis on liver biopsy, or a liver related event such as hepatic decompensation. The total anticipated enrollment is approximately 2,000 patients, and will include up to 15% high risk F1 fibrosis stage NASH patients whose efficacy responses will be evaluated as exploratory endpoints.

On December 10, 2019 the Company announced it had opened for enrollment MAESTRO-NAFLD-1, a 52-week, double-blind, placebo controlled Phase 3 clinical study in 700 patients with biopsy-confirmed or presumed NASH recruited from sites in the U.S. Key endpoints are safety, including safety biomarkers, LDL cholesterol, lipid biomarkers, and fibrosis biomarkers. Except for serial liver biopsies, the study protocol is similar to the MAESTRO-NASH study with resmetirom doses of 80 mg or 100 mg or placebo and includes key secondary lipid, MRI-PDFP and NASH biomarker endpoints. In addition, MAESTRO-NAFLD-1 includes an open label arm in which up to 100 patients will be dosed with 100 mg resmetirom. The MAESTRO -NAFLD-1 study will help support the adequacy of the safety database at the time of NDA submission for subpart H approval for treatment of NASH in patients with F2 or F3 fibrosis (MAESTRO-NASH, NASH resolution surrogate endpoint).

### **Recent Developments**

#### *Initiation of MAESTRO-NASH Phase 3 clinical trial*

In March of 2019 we initiated a Phase 3 trial in NASH, described in detail above under “About Madrigal; Our Ongoing and Planned Studies.”

#### *FDA grants Fast Track designation for resmetirom in NASH*

In October 2019, FDA granted Fast Track designation to resmetirom for NASH.

#### *Initiation of MAESTRO-NAFLD-1 Phase 3 clinical trial*

In December 2019 we initiated a Phase 3 trial in presumed NASH, described in detail above under “About Madrigal; Our Ongoing and Planned Studies.”



## [Table of Contents](#)

### *COVID-19 Pandemic Effects on Madrigal*

In April 2020 we announced that in response to guidance from regulatory agencies, measures for COVID-19 at impacted sites have been put in place for its Phase 3 MAESTRO-NASH and MAESTRO-NAFLD-1 studies, allowing both studies to continue without changes to the protocol. At a recently conducted Data Monitoring Committee (DMC) meeting it was recommended that Phase 3 studies proceed without modification. The COVID-19 pandemic had no material adverse impact on our operating results, MAESTRO-NAFLD-1 study or liquidity for the period ended June 30, 2020, but it did introduce clinical trial and operational risks and uncertainties that are both general in nature and relate specifically to our MAESTRO-NASH study. These risks and uncertainties, which are beyond our control, are referenced as “Risk Factors” and summarized in Part II, Item 1A in this Form 10-Q.

### **Basis of Presentation**

#### ***Research and Development Expenses***

Research and development expenses primarily consist of costs associated with our research activities, including the preclinical and clinical development of our product candidates. We expense our research and development expenses as incurred. We contract with clinical research organizations to manage our clinical trials under agreed upon budgets for each study, with oversight by our clinical program managers. We account for nonrefundable advance payments for goods and services that will be used in future research and development activities as expenses when the service has been performed or when the goods have been received. Manufacturing expense includes costs associated with drug formulation development and clinical drug production. We do not track employee and facility related research and development costs by project, as we typically use our employee and infrastructure resources across multiple research and development programs. We believe that the allocation of such costs would be arbitrary and not be meaningful.

Our research and development expenses consist primarily of:

- salaries and related expense, including stock-based compensation;
- external expenses paid to clinical trial sites, contract research organizations, laboratories, database software and consultants that conduct clinical trials;
- expenses related to development and the production of nonclinical and clinical trial supplies, including fees paid to contract manufacturers;
- expenses related to preclinical studies;
- expenses related to compliance with drug development regulatory requirements; and
- other allocated expenses, which include direct and allocated expenses for depreciation of equipment and other supplies.

We expect to continue to incur substantial expenses related to our development activities for the foreseeable future as we conduct our clinical studies programs, manufacturing and toxicology studies. Product candidates in later stages of clinical development generally have higher development costs than those in earlier stages of clinical development, primarily due to the increased size and duration of later-stage clinical trials, additional drug manufacturing requirements, and later stage toxicology studies such as carcinogenicity studies. Our research and development expenses have increased period over period in each of 2020 and 2019 and we expect that our research and development expenses will increase substantially in the future. The process of conducting preclinical studies and clinical trials necessary to obtain regulatory approval is costly and time consuming. The probability of success for each product candidate is affected by numerous factors, including preclinical data, clinical data, competition, manufacturing capability and commercial viability. Accordingly, we may never succeed in achieving marketing approval for any of our product candidates.

Completion dates and costs for our clinical development programs as well as our research program can vary significantly for each current and future product candidate and are difficult to predict. As a result, we cannot estimate with any degree of certainty the costs we will incur in connection with the development of our product candidates at this point in time. We expect that we will make determinations as to which programs and product candidates to pursue and how much funding to direct to each program and product candidate on an ongoing basis in response to the scientific success of early research programs, results of ongoing and future clinical trials, our ability to enter into collaborative agreements with respect to programs or potential product candidates, as well as ongoing assessments as to each current or future product candidate’s commercial potential.

#### ***General and Administrative Expenses***

General and administrative expenses consist primarily of salaries, benefits and stock-based compensation expenses for employees, management costs, costs associated with obtaining and maintaining our patent portfolio, professional fees for accounting, auditing, consulting and legal services, liability insurance, and allocated overhead expenses.

We expect that our general and administrative expenses may increase in the future as we advance our clinical and preclinical development programs for resmetirom and expand our operating activities, including maintaining and expanding our patent portfolio, incurring additional costs associated with being a public company and maintaining compliance with exchange listing and SEC requirements. We expect these potential increases will likely include management costs, legal fees, accounting fees, directors’ and officers’ liability insurance premiums and expenses associated with investor relations.

## [Table of Contents](#)

### Critical Accounting Policies and Estimates

Our management's discussion and analysis of our financial condition and results of operations are based on our financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amount of assets, liabilities, and expenses and the disclosure of contingent assets and liabilities as of the date of the financial statements. On an ongoing basis, we evaluate our estimates and judgments, including those related to accrued research and development expenses and stock-based compensation expense. We base our estimates on historical experience, known trends and events, and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ materially from these estimates under different assumptions or conditions. There have been no material changes in our critical accounting policies and significant judgments and estimates during the six months ended June 30, 2020, as compared to those disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019 filed with the SEC on February 26, 2020.

### Results of Operations

#### Three months Ended June 30, 2020 and 2019

The following table provides comparative unaudited results of operations for the three months ended June 30, 2020 and 2019 (in thousands):

	Three Months Ended June 30,		Increase / (Decrease)	
	2020	2019	\$	%
Research and Development Expenses	\$ 44,688	\$ 15,594	29,094	187%
General and Administrative Expenses	5,639	7,110	(1,471)	(21%)
Interest (Income)	(1,204)	(3,005)	(1,801)	(60%)
Other (income)	(100)	—	100	100%
	\$ 49,023	\$ 19,699	29,324	149%

#### Revenue

We had no revenue for the three months ended June 30, 2020 and 2019.

#### Research and Development Expenses

Our research and development expenses were \$44.7 million for the three months ended June 30, 2020, compared to \$15.6 million in the corresponding period in 2019. Research and development expenses increased by \$29.1 million in the 2020 period due primarily to the additional activities related to the Phase 3 clinical trials initiated in 2019, and an increase in head count. We expect our research and development expenses to increase over time as we advance our clinical and preclinical development programs for resmetirom.

#### General and Administrative Expenses

Our general and administrative expenses were \$5.6 million for the three months ended June 30, 2020, compared to \$7.1 million in the corresponding period in 2019. General and administrative expenses decreased by \$1.5 million in the 2020 period due primarily to a decrease in non-cash stock compensation from stock option awards, partially offset by increases in other general and administrative expenses. We believe our general and administrative expenses may increase over time as we advance our clinical and preclinical development programs for resmetirom and expand our operating activities, which will likely result in an increase in our headcount, consulting services, and related overhead needed to support those efforts.

#### Interest Income

Our net interest income was \$1.2 million for the three months ended June 30, 2020, compared to \$3.0 million in the corresponding period in 2019. The decrease in interest income was due primarily to a lower average principal balance in our investment account in 2020 and decreased interest rates.

## [Table of Contents](#)

### *Six months Ended June 30, 2020 and 2019*

The following table provides comparative unaudited results of operations for the six months ended June 30, 2020 and 2019 (in thousands):

	<u>Six Months Ended June 30,</u>		<u>Increase / (Decrease)</u>	
	<u>2020</u>	<u>2019</u>	<u>\$</u>	<u>%</u>
Research and Development Expenses	\$ 78,088	\$ 27,967	50,121	179%
General and Administrative Expenses	10,244	12,856	(2,612)	(20%)
Interest (Income)	(3,074)	(6,044)	(2,970)	(49%)
Other (income)	(100)	—	100	100%
	<u>\$ 85,158</u>	<u>\$ 34,779</u>	<u>50,379</u>	<u>145%</u>

#### *Revenue*

We had no revenue for the six months ended June 30, 2020 and 2019.

#### *Research and Development Expenses*

Our research and development expenses were \$78.1 million for the six months ended June 30, 2020, compared to \$28.0 million in the corresponding period in 2019. Research and development expenses increased by \$50.1 million in the 2020 period due primarily to the additional activities related to the Phase 3 clinical trials initiated in 2019, an increase in head count, and an increase in non-cash stock compensation from stock option awards. We expect our research and development expenses to increase over time as we advance our clinical and preclinical development programs for resmetirom.

#### *General and Administrative Expenses*

Our general and administrative expenses were \$10.2 million for the six months ended June 30, 2020, compared to \$12.9 million in the corresponding period in 2019. General and administrative expenses decreased by \$2.6 million in the 2020 period due primarily to a decrease in non-cash stock compensation from stock option awards, partially offset by increases in other general and administrative expenses. We believe our general and administrative expenses may increase over time as we advance our clinical and preclinical development programs for resmetirom and expand our operating activities, which will likely result in an increase in our headcount, consulting services, and related overhead needed to support those efforts.

#### *Interest Income*

Our net interest income was \$3.1 million for the six months ended June 30, 2020, compared to \$6.0 million in the corresponding period in 2019. The decrease in interest income was due primarily to a lower average principal balance in our investment account in 2020 and decreased interest rates.

### **Liquidity and Capital Resources**

Since inception, we have incurred significant net losses and we have funded our operations primarily through the issuance of shares of our common stock and shares of our preferred stock. Our most significant use of capital pertains to salaries and benefits for our employees, including clinical, scientific, operational, financial and management personnel, and external research and development expenses, such as clinical trials and preclinical activity related to our product candidates.

As of June 30, 2020, we had cash, cash equivalents and marketable securities totaling \$384.4 million compared to \$439.0 million as of December 31, 2019, with the decrease attributable to the funding of operations. Our cash and investment balances are held in a variety of interest bearing instruments, including obligations of U.S. government agencies, U.S. Treasury debt securities, corporate debt securities and money market funds. Cash in excess of immediate requirements is invested in accordance with our investment policy with a view toward capital preservation and liquidity.

We anticipate continuing to incur operating losses for the foreseeable future. While our rate of cash usage will likely increase in the future, in particular to support our product development and clinical trial efforts, we believe our available cash resources as of June 30, 2020 will be sufficient to fund our operations past one year from the issuance of the financial statements contained herein, and this outlook takes into account circumstances that are currently reasonably foreseeable in connection with the COVID-19 pandemic. For a description of COVID-19 pandemic risks, including risks and uncertainties beyond our control, see Part II, Item 1A, "Risk Factors" in

## [Table of Contents](#)

this Form 10-Q. Our future long-term liquidity requirements will be substantial and will depend on many factors. To meet future long-term liquidity requirements, we will need to raise additional capital to fund our operations through equity or debt financing. We regularly consider fundraising opportunities and may decide, from time to time, to raise capital based on various factors, including market conditions and our plans of operation. Additional capital may not be available on terms acceptable to us, or at all. If adequate funds are not available, or if the terms of potential funding sources are unfavorable, our business and our ability to develop our product candidates would be harmed. Furthermore, any sales of additional equity securities may result in dilution to our stockholders, and any debt financing may include covenants that restrict our business.

### **Cash Flows**

The following table provides a summary of our net cash flow activity (in thousands):

	<b>Six Months Ended June 30,</b>	
	<b>2020</b>	<b>2019</b>
Net cash used in operating activities	\$ (54,764)	\$ (18,018)
Net cash provided by investing activities	69,825	32,947
Net cash provided by financing activities	109	200
Net increase in cash and cash equivalents	\$ 15,170	\$ 15,129

Net cash used in operating activities was \$54.8 million for the six months ended June 30, 2020, compared to \$18.0 million for the corresponding period in 2019. The use of cash in these periods resulted primarily from our losses from operations, as adjusted for non-cash charges for stock-based compensation, and changes in our working capital accounts.

Net cash provided by investing activities was \$69.8 million for the six months ended June 30, 2020, compared to \$32.9 million for the corresponding period in 2019. Net cash provided by investing activities for the six months ended June 30, 2020 consisted of \$224.0 million from sales and maturities of marketable securities, partially offset by \$153.9 million of purchases of marketable securities for our investment portfolio and \$0.3 million of purchases of property and equipment. Net cash provided by investing activities for the six months ended June 30, 2019 consisted of \$299.1 million from sales and maturities of marketable securities, partially offset by \$266.1 million of purchases of marketable securities for our investment portfolio.

Net cash provided by financing activities was \$0.1 million for the six months ended June 30, 2020, compared to \$0.2 million for the corresponding period in 2019, both of which consisted of proceeds from exercise of stock options.

### **Contractual Obligations and Commitments**

No significant changes to contractual obligations and commitments occurred during the six months ended June 30, 2020, as compared to those disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019 filed with the SEC on February 26, 2020.

### **Off-Balance Sheet Arrangements**

We do not have any off balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K.

## **Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

### **Interest Rate Risk**

Our exposure to market risk is confined to our cash, cash equivalents and marketable securities. We regularly review our investments and monitor the financial markets. We invest in high-quality financial instruments, primarily money market funds, U.S. government and agency securities, government-sponsored bond obligations and certain other corporate debt securities, with the effective duration of the portfolio less than twelve months and no security with a duration in excess of twenty-four months, which we believe are subject to limited credit risk. We currently do not hedge interest rate exposure. Due to the short-term duration of our investment portfolio and the current risk profile of our investments, we believe that an immediate 10% change in interest rates would not have a material effect on the fair market value of our portfolio. We do not believe that we have any material exposure to interest rate risk or changes in credit ratings arising from our investments.

---

## [Table of Contents](#)

### ***Effects of Inflation***

Inflation generally affects us with increased cost of labor and clinical trial costs. We do not believe that inflation and changing prices had a significant impact on our results of operations for any periods presented herein.

## **Item 4. Controls and Procedures.**

### ***Definition and Limitations of Disclosure Controls***

Our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are designed to provide reasonable assurance that information required to be disclosed by us in the reports that we file under the Exchange Act, such as this Quarterly Report, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Our management evaluates these controls and procedures on an ongoing basis.

We carried out an evaluation, under the supervision of and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

### ***Limitations on the Effectiveness of Controls and Procedures***

In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute, assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

### ***Changes in Internal Control over Financial Reporting***

There has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II – OTHER INFORMATION

### Item 1. Legal Proceedings.

We are not party to any material pending legal proceedings. From time to time, we may be involved in legal proceedings arising in the ordinary course of business.

### Item 1A. Risk Factors.

Our business is subject to substantial risks and uncertainties, including risks, uncertainties and developments related to the COVID-19 pandemic. You should carefully consider the risk factors set forth below as well as the other information contained in this Quarterly Report on Form 10-Q and in our other public filings in evaluating our business, including risk factors in our 2019 Annual Report on Form 10-K for the year ended December 31, 2019, which was filed with the SEC on February 26, 2020 (collectively, our “Risk Factors”). Any of our Risk Factors either alone or taken together, may be heightened due to the COVID-19 pandemic or other factors and could materially and adversely affect our business, financial condition, results of operations or prospects and the value of our common stock. In addition, these risks and uncertainties could cause actual results to differ materially from those expressed or implied by forward-looking statements contained in this Form 10-Q or any of our public disclosures. See “Special Note Regarding Forward-Looking Statements” in this Form 10-Q. There have been no material changes to the Risk Factors as previously disclosed in the Company’s 2019 Annual Report on Form 10-K, except as follows:

***The continuation or worsening of the COVID-19 pandemic, which had worldwide effect in the first quarter of 2020, could affect our ability to complete our ongoing clinical trials, disrupt regulatory activities and delay or disrupt commercialization of resmetrom, and may have other adverse effects on our stock price and business operations.***

The COVID-19 pandemic is causing many governments to implement measures to slow the spread of the outbreak through quarantines, travel restrictions, heightened border security, shelter-in place guidelines, social distancing restrictions and other measures. This outbreak and the resulting governmental measures have had a significant impact, both direct and indirect, on businesses and commerce in the life sciences industry generally, as supply chains have been disrupted; facilities and production have been suspended; unemployment has increased; and demand for certain third-party goods and services, such as medical services and supplies, has spiked. The future progression of the pandemic and its effects on our business and operations are extremely uncertain and subject to the risks described below.

We and our contract research organizations (“CROs”) and contract manufacturing organizations (“CMO”) may face disruptions that may affect our ability to conduct and timely complete ongoing clinical trials including disruptions in procuring items that are essential for our development activities, such as materials and intermediates used in the manufacturing of resmetrom. We and our CROs and CMOs, as well as clinical trial sites, may face disruptions related to our ongoing clinical trials arising from staffing disruptions and limitations on our activities and the activities of our CROs and CMOs, and delays in the ability to obtain necessary institutional review board or other necessary site approvals or delays in site initiations or site monitoring visits, as well as other delays at clinical trial sites. We may also face limitations on enrollment and patients withdrawing from our clinical trials or not complying with the protocol procedures, which could delay completion of our clinical trials or adversely affect the data generated by our clinical trials. For instance, patient screening and enrollment has been impacted and study patients may not be able to comply with clinical trial protocols (including biopsy testing), in each case where quarantines or shelter-in-place restrictions impede patient movement or interrupt patient demand for, or a medical facility’s delivery of, protocol-required services and procedures. Additionally, our ability to recruit and retain patients and principal investigators and site staff who may have heightened risks if exposed to COVID-19 may adversely impact the Company’s clinical trial operations. The response to the COVID-19 pandemic also could redirect resources with respect to regulatory and intellectual property matters in a way that could adversely impact our ability to progress regulatory approvals and protect our intellectual property. In addition, we may face impediments to regulatory meetings and approvals due to measures that are intended to limit in-person interactions. The pandemic has significantly impacted economies worldwide, which could result in adverse effects on our business and operations. Moreover, the pandemic has also caused significant disruptions in the financial markets, and may continue to cause such disruptions, which has led to increased trading volatility and significant stock price declines, particularly in the first quarter of 2020, and the pandemic or related consequences may adversely impact the future volatility and value of our stock and future trading in our stock.

In accordance with governmental pronouncements, we have instituted policies to facilitate working remotely. The continuation of personnel working from home (not only at Madrigal, but also at CROs, CMOs, clinical sites and governmental and supervisory bodies) may negatively impact our productivity, or disrupt, delay, or otherwise adversely impact our business. This could adversely impact our business operations or delay necessary interactions with regulators, ethics committees, manufacturing sites, research or clinical trial sites and other important agencies and contractors, including our CROs and CMOs. We cannot be certain what the overall impact of the COVID-19 pandemic will be on our business. However, it has the potential to adversely affect our business, financial condition, results of operations, and prospects.

## [Table of Contents](#)

*If we continue to experience delays or difficulties in the enrollment of patients in our MAESTRO-NASH trial, our receipt of necessary regulatory approvals, and the commercialization of resmetirom, could be delayed or prevented.*

We may not be able to complete our MAESTRO-NASH clinical trial for resmetirom as previously planned if we are unable to locate and enroll on a timely basis a sufficient number of eligible patients to participate in this trial, as required by the FDA or similar regulatory authorities outside of the United States. The global coronavirus pandemic has presented significant challenges in the conduct of MAESTRO-NASH enrollment in 2020. Screening for MAESTRO-NASH was negatively impacted due to the outbreak of the COVID-19 pandemic, and the resulting governmental quarantine restrictions and shelter-in-place guidelines that influenced the closing or suspension of many European and U.S. trial sites and a decline in U.S. patients seeking screening biopsies. In addition, because MAESTRO-NASH is focused on specific patient populations with protocol-specified biopsy requirements, our ability to enroll eligible patients may be limited and enrollment may be slower than we anticipated before the pandemic.

In the face of these challenges, we have taken steps to mitigate the delay in MAESTRO-NASH enrollment by arranging biopsy and MRI services at non-hospital facilities near many of our site locations, increasing the number of clinical sites and enrolling patients with existing biopsies, including patients from NASH trials which were discontinued and/or in which the drug was inactive in NASH. We believe these mitigation efforts have positioned us to accelerate enrollment growth going forward, but the pace of new enrollment ultimately will be dependent on our target study patients becoming comfortable initiating the protocol-prescribed biopsies during the COVID-19 pandemic. External factors that would help accelerate MAESTRO-NASH enrollment include new or emerging developments such as: declines in the number of new reported COVID-19 cases; actual (or perceived) reduced risks associated with potential surges in cases or “second-wave” COVID-19 developments in the U.S. and Europe; the easing of COVID-19 governmental restrictions; the emergence of widely-recognized effective therapeutics, therapeutic combinations or vaccines to combat COVID-19; and a sustained return to pre-COVID-19 daily routines, including routine on-site work and school schedules and medical procedure scheduling in the U.S. and Europe.

If the COVID-19 pandemic continues or worsens, patient recruitment and enrollment in our MAESTRO-NASH trial may be adversely affected, delayed or interrupted. In addition, patients may choose to withdraw from our studies or we may choose to or be required to pause enrollment and or patient dosing in our trial in order to preserve health resources and protect trial participants. It is unknown whether or how long pauses, delays or disruptions could occur or continue. Our ability to successfully complete MAESTRO-NASH enrollment and study objectives in the midst of the COVID-19 pandemic is subject to circumstances beyond our control and is subject to the enhanced risks and uncertainties that are described in our Risk Factors.

### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

None.

### **Item 3. Defaults Upon Senior Securities.**

None.

### **Item 4. Mine Safety Disclosures.**

Not applicable.

### **Item 5. Other Information.**

None.

### **Item 6. Exhibits.**

The exhibits filed or furnished as part of this Quarterly Report on Form 10-Q are set forth on the Exhibit Index, which Exhibit Index is incorporated herein by reference.

**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Exhibit Description</b>	<b>Form</b>	<b>Incorporated by Reference File No.</b>	<b>Exhibit</b>	<b>Filing Date</b>	<b>Filed Herewith</b>
10.7*	<a href="#">Form of Nonqualified Stock Option Agreement for Directors under Amended 2015 Stock Plan.</a>					X
31.1	<a href="#">Certification of Principal Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>					X
31.2	<a href="#">Certification of Principal Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>					X
32.1**	<a href="#">Certifications of Principal Executive Officer and Principal Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>					X
101.INS	Inline XBRL Instance Document.					X
101.SCH	Inline XBRL Taxonomy Extension Schema Document.					X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.					X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.					X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.					X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.					X
104	Inline XBRL for the cover page of this Annual Report on Form 10-K, included in the Exhibit 101 Inline XBRL Document Set.					

\* Certain portions of this exhibit have been redacted in accordance with Item 601(b)(10) of Regulation S-K.

\*\* The certifications attached as Exhibit 32.1 that accompany this Quarterly Report pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, shall not be deemed “filed” by the registrant for purposes of Section 18 of the Exchange Act and are not to be incorporated by reference into any of the registrant’s filings under the Securities Act or the Exchange Act, irrespective of any general incorporation language contained in any such filing.



**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MADRIGAL PHARMACEUTICALS, INC.

Date: August 6, 2020

By: /s/ Paul A. Friedman, M.D.  
Paul A. Friedman, M.D.  
Chief Executive Officer  
(Principal Executive Officer)

Date: August 6, 2020

By: /s/ Marc R. Schneebaum  
Marc R. Schneebaum  
Chief Financial Officer  
(Principal Financial and Accounting Officer)



NON-QUALIFIED STOCK OPTION AGREEMENT

SHARES OF COMMON STOCK,  
\$.0001 PAR VALUE PER SHARE

MADRIGAL PHARMACEUTICALS, INC.

\_\_\_\_\_, 20\_\_

As of \_\_\_\_\_, 20\_\_ (the "**Grant Date**"), Madrigal Pharmaceuticals, Inc. (the "**Company**"), a Delaware corporation, grants to \_\_\_\_\_ (the "**Non-Employee Director**") the right and option (the "**Option**") to purchase up to \_\_\_\_\_ shares of the Common Stock, \$.0001 par value per share, of the Company (the "**Shares**"), at a purchase price of \$\_\_\_\_\_ per share (the "**Purchase Price**") and on the terms and subject to the conditions set forth in the Company's 2015 Stock Plan (the "**Plan**"), United States securities and tax laws and this Agreement. For the purpose of this Agreement, the initial vesting date shall be \_\_\_\_\_, 20\_\_ ("**Initial Vesting Date**").

**This Agreement, which includes the terms and conditions attached hereto, does not set forth all of the terms and conditions of the Plan, which is hereby incorporated into and made a part of this Agreement by reference. Any terms used and not defined herein have the same meanings as in the Plan. The Non-Employee Director acknowledges that he or she has received a copy of the Plan from the Company and has carefully read the terms and conditions of the Plan and the attached terms and conditions which make up a part of this Agreement.**

MADRIGAL PHARMACEUTICALS, INC.

---

 Chief Executive Officer

1. GRANT OF OPTION.

The Company hereby grants to the Non-Employee Director, as of the Grant Date, the right and option to purchase all or any part of the aggregate number of Shares set forth on the signed cover page of this Agreement, on the terms and conditions and subject to all the limitations set forth herein, under United States securities and tax laws, and in the Plan, which is incorporated herein by reference. The Non-Employee Director acknowledges receipt of a copy of the Plan.

2. PURCHASE PRICE.

The purchase price of the Shares covered by the Option shall be the Purchase Price set forth on the cover page of this Agreement, subject to adjustment, as provided in the Plan, in the event of a stock split, reverse stock split or other events affecting the holders of Shares. Payment shall be made in accordance with Section 9 of the Plan.

3. EXERCISABILITY OF OPTION.

Subject to the terms and conditions set forth in this Agreement and the Plan, the Option granted hereby shall become exercisable [insert vesting schedule], provided that the Non-Employee Director continues as a director of the Company or of an Affiliate through the Initial Vesting Date. Notwithstanding the foregoing, the Option shall become vested and exercisable in accordance with the terms and conditions set forth in Sections 24B and F of the Plan.

4. TERM OF OPTION.

The Option shall terminate \_\_\_\_ years from the date of this Agreement, but shall be subject to earlier termination as provided herein or in the Plan.

If the Non-Employee Director ceases to be a director of the Company or of an Affiliate (for any reason other than the death or Disability of the Non-Employee Director or termination of the Non-Employee Director for "cause" (as defined in the Plan), the Option may be exercised, if it has not previously terminated, within three months after the date the Non-Employee Director ceases to be a director of the Company or of an Affiliate, or within the originally prescribed term of the Option, whichever is earlier, but may not be exercised thereafter. In such event, the Option shall be exercisable only to the extent that the Option has become exercisable and is in effect at the date of such cessation of service.

Notwithstanding the foregoing, in the event of the Non-Employee Director's Disability (as determined in accordance with the Plan) or death, the Non-Employee Director or the Non-Employee Director's Survivors may exercise the Option within the earlier of (1) one year after the date of the Non-Employee Director's termination of service due to Disability or death, or (2) if earlier, the date of expiration of the term of the Option as originally prescribed in the Option

In the event the Non-Employee Director's service is terminated by the Company or by an Affiliate for "cause" (as defined in the Plan), the Non-Employee Director's right to exercise any unexercised portion of this Option shall cease immediately as of the time the Non-Employee Director is notified his or her service is terminated for "cause," and this Option shall thereupon terminate. Notwithstanding anything herein to the contrary, if subsequent to the Non-Employee Director's termination, but prior to the exercise of the Option, the Board of Directors of the Company determines that, either prior or subsequent to the Non-Employee Director's termination, the Non-Employee Director engaged in conduct which would constitute "cause" (as defined in the Plan), then the Non-Employee Director shall immediately cease to have any right to exercise the Option and this Option shall thereupon terminate.

5. METHOD OF EXERCISING OPTION.

Subject to the terms and conditions of this Agreement, the Option may be exercised by written notice to the Company or its designee, in substantially the form of Exhibit A attached hereto. Such notice shall state the number of Shares with respect to which the Option is being exercised and shall be signed by the person exercising the Option. Payment of the purchase price for such Shares shall be made in accordance with Section 9 of the Plan. The Company shall deliver such Shares as soon as practicable after the notice shall be received, provided, however, that the Company may delay issuance of such Shares until completion of any action or obtaining of any consent, which the Company deems necessary under any applicable law (including, without limitation, state securities or "blue sky" laws). The Shares as to which the Option shall have been so exercised shall be registered in the Company's share register in the name of the person so exercising the Option (or, if the Option shall be exercised by the Non-Employee Director and if the Non-Employee Director shall so request in the notice exercising the Option, shall be registered in the Company's share register in the name of the Non-Employee Director and another person jointly, with right of survivorship) and shall be delivered as provided above to or upon the written order of the person exercising the Option. In the event the Option shall be exercised, pursuant to Section 4 hereof, by any person other than the Non-Employee Director, such notice shall be accompanied by appropriate proof of the right of such person to exercise the Option. All Shares that shall be purchased upon the exercise of the Option as provided herein shall be fully paid and nonassessable.

6. PARTIAL EXERCISE.

Exercise of this Option to the extent above stated may be made in part at any time and from time to time within the above limits, except that no fractional share shall be issued pursuant to this Option.

7. NON-ASSIGNABILITY.

The Option shall not be transferable by the Non-Employee Director otherwise than by will or by the laws of descent and distribution or pursuant to a qualified domestic relations order as defined by the Code or Title I of the Employee Retirement Income Security Act or the rules thereunder. However, the Non-Employee Director, with the approval of the Administrator, may transfer the Option for no consideration. Except as provided in the previous sentence, the Option shall be exercisable, during the Non-Employee Director's lifetime, only by the Non-Employee Director (or, in the event of legal incapacity or incompetency, by the Non-Employee Director's guardian or representative) and shall not be assigned, pledged or hypothecated in any way (whether by operation of law or otherwise) and shall not be subject to execution, attachment or similar process. Any attempted transfer, assignment, pledge, hypothecation or other disposition of the Option or of any rights granted hereunder contrary to the provisions of this Section 7, or the levy of any attachment or similar process upon the Option shall be null and void.

8. NO RIGHTS AS STOCKHOLDER UNTIL EXERCISE.

The Non-Employee Director shall have no rights as a stockholder with respect to Shares subject to this Agreement until registration of the Shares in the Company's share register in the name of the Non-Employee Director. Except as is expressly provided in the Plan with respect to certain changes in the capitalization of the Company, no adjustment shall be made for dividends or similar rights for which the record date is prior to the date of such registration.

9. ADJUSTMENTS.

The Plan contains provisions covering the treatment of Options in a number of contingencies such as stock splits and mergers. Provisions in the Plan for adjustment with respect to stock subject to Options and the related provisions with respect to successors to the business of the Company are hereby made applicable hereunder and are incorporated herein by reference.

10. TAXES.

The Non-Employee Director acknowledges that upon exercise of the Option the Non-Employee Director will be deemed to have taxable income measured by the difference between the then fair market value of the Shares received upon exercise and the price paid for such Shares pursuant to this Agreement. The Non-Employee Director acknowledges that any income or other taxes due from him or her with respect to this Option or the Shares issuable pursuant to this Option shall be the Non-Employee Director's responsibility.

The Non-Employee Director agrees that the Company may withhold from the Non-Employee Director's remuneration, if any, the minimum statutory amount of federal, state and local withholding taxes attributable to such amount that is considered compensation includable in such person's gross income. At the Company's discretion, the amount required to be withheld may be withheld in cash from such remuneration, or in kind from the Shares otherwise deliverable to the Non-Employee Director on exercise of the Option. The Non-Employee Director further agrees that, if the Company does not withhold an amount from the Non-Employee Director's remuneration sufficient to satisfy the Company's income tax withholding obligation, the Non-Employee Director will reimburse the Company on demand, in cash, for the amount under-withheld.

11. PURCHASE FOR INVESTMENT.

Unless the offering and sale of the Shares to be issued upon the particular exercise of the Option shall have been effectively registered under the Securities Act of 1933, as now in force or hereafter amended (the "1933 Act"), the Company shall be under no obligation to issue the Shares covered by such exercise unless and until the following conditions have been fulfilled:

- (a) The person(s) who exercise the Option shall warrant to the Company, at the time of such exercise, that such person(s) are acquiring such Shares for their own respective accounts, for investment, and not with a view to, or for sale in connection with, the distribution of any such Shares, in which event the person(s) acquiring such Shares shall be bound by the provisions of the following legend which shall be endorsed upon the certificate(s) evidencing the Shares issued pursuant to such exercise:

"The shares represented by this certificate have been taken for investment and they may not be sold or otherwise transferred by any person, including a pledgee, unless (1) either (a) a Registration Statement with respect to such shares shall be effective under the Securities Act of 1933, as amended, or (b) the Company shall have received an opinion of counsel satisfactory to it that an exemption from registration under such Act is then available, and (2) there shall have been compliance with all applicable state securities laws"; and

- (b) If the Company so requires, the Company shall have received an opinion of its counsel that the Shares may be issued upon such particular exercise in compliance with the 1933 Act without registration thereunder. Without limiting the generality of the foregoing, the Company may delay issuance of the Shares until completion of any action or obtaining of any consent, which the Company deems necessary under any applicable law (including without limitation state securities or "blue sky" laws).

12. RESTRICTIONS ON TRANSFER OF SHARES.

12.1 The Shares acquired by the Non-Employee Director pursuant to the exercise of the Option granted hereby shall not be transferred by the Non-Employee Director except as permitted herein.

12.2 If, in connection with a registration statement filed by the Company pursuant to the 1933 Act, the Company or its underwriter so requests, the Non-Employee Director will agree not to sell any Shares for a period not to exceed 210 days following the effectiveness of such registration.

12.3 The Non-Employee Director acknowledges and agrees that neither the Company, its shareholders nor its directors and officers, has any duty or obligation to disclose to the Non-Employee Director any material information regarding the business of the Company or affecting the value of the Shares before, at the time of, or following a termination of service of the Non-Employee Director by the Company, including, without limitation, any information concerning plans for the Company to make a public offering of its securities or to be acquired by or merged with or into another firm or entity.

13. NO OBLIGATION TO MAINTAIN RELATIONSHIP.

The Company is not by the Plan or this Option obligated to continue the Non-Employee Director as a director of the Company or of an Affiliate. The Non-Employee Director acknowledges: (i) that the Plan is discretionary in nature and may be suspended or terminated by the Company at any time; (ii) that the grant of the Option is a one-time benefit which does not create any contractual or other right to receive future grants of options, or benefits in lieu of options; (iii) that all determinations with respect to any such future grants, including, but not limited to, the times when options shall be granted, the number of shares subject to each option, the option price, and the time or times when each option shall be exercisable, will be at the sole discretion of the Company; (iv) that the Non-Employee Director's participation in the Plan is voluntary; (v) that the value of the Option is an extraordinary item of compensation; and (vi) that the Option is not part of normal or expected compensation for purposes of calculating any severance, resignation, redundancy, end of service payments, bonuses, long-service awards, pension or retirement benefits or similar payments.

14. NOTICES.

Any notices required or permitted by the terms of this Agreement or the Plan shall be given by recognized courier service, facsimile, registered or certified mail, return receipt requested, addressed as follows:

If to the Company:

Madrigal Pharmaceuticals, Inc.  
200 Barr Harbor Drive, Suite 200  
West Conshohocken, PA 19428  
Attention: Stock Plan Administrator

If to the Non-Employee Director, the Non-Employee Director's Company email address or the mailing address previously provided to the Company, or to such other address or addresses of which notice in the same manner has previously been given. Any such notice shall be deemed to have been given upon the earlier of receipt, one business day following delivery to a recognized courier service or three business days following mailing by registered or certified mail.

15. GOVERNING LAW.

This Agreement shall be construed and enforced in accordance with the law of the State of Delaware, without giving effect to the conflict of law principles thereof. For the purpose of litigating any dispute that arises under this Agreement, the parties hereby consent to exclusive jurisdiction in the Commonwealth of Pennsylvania and agree that such litigation shall be conducted in the courts of Montgomery County, Pennsylvania or the federal courts of the United States for the Eastern District of Pennsylvania.

16. BENEFIT OF AGREEMENT.

Subject to the provisions of the Plan and the other provisions hereof, this Agreement shall be for the benefit of and shall be binding upon the heirs, executors, administrators, successors and assigns of the parties hereto.

17. ENTIRE AGREEMENT.

This Agreement, together with the Plan, embodies the entire agreement and understanding between the parties hereto with respect to the subject matter hereof and supersedes all prior oral or written agreements and understandings relating to the subject matter hereof. No statement, representation, warranty, covenant or agreement not expressly set forth in this Agreement shall affect or be used to interpret, change or restrict, the express terms and provisions of this Agreement, provided, however, in any event, this Agreement shall be subject to and governed by the Plan.

18. MODIFICATIONS AND AMENDMENTS.

The terms and provisions of this Agreement may be modified or amended as provided in the Plan.

19. WAIVERS AND CONSENTS.

Except as provided in the Plan, the terms and provisions of this Agreement may be waived, or consent for the departure therefrom granted, only by written document executed by the party entitled to the benefits of such terms or provisions. No such waiver or consent shall be deemed to be or shall constitute a waiver or consent with respect to any other terms or provisions of this Agreement, whether or not similar. Each such waiver or consent shall be effective only in the specific instance and for the purpose for which it was given, and shall not constitute a continuing waiver or consent.

20. DATA PRIVACY.

By entering into this Agreement, the Non-Employee Director: (i) authorizes the Company and each Affiliate, and any agent of the Company or any Affiliate administering the Plan or providing Plan recordkeeping services, to disclose to the Company or any of its Affiliates such information and data as the Company or any such Affiliate shall request in order to facilitate the grant of options and the administration of the Plan; (ii) waives any data privacy rights he or she may have with respect to such information; and (iii) authorizes the Company and each Affiliate to store and transmit such information in electronic form.

**EXHIBIT A**

**NOTICE OF EXERCISE OF NON-QUALIFIED STOCK OPTION**

TO: Madrigal Pharmaceuticals, Inc.

Ladies and Gentlemen:

I hereby exercise my Non-Qualified Stock Option to purchase \_\_\_\_\_ shares (the "Shares") of the common stock, \$.0001 par value, of Madrigal Pharmaceuticals, Inc. (the "Company"), at the exercise price of \$\_\_\_\_\_ per share, pursuant to and subject to the terms of that certain Non-Qualified Stock Option Agreement between the undersigned and the Company dated \_\_\_\_\_.

I understand the nature of the investment I am making and the financial risks thereof. I am aware that it is my responsibility to have consulted with competent tax and legal advisors about the relevant national, state and local income tax and securities laws affecting the exercise of the Option and the purchase and subsequent sale of the Shares.

I am paying the option exercise price for the Shares as follows:

\_\_\_\_\_

Please issue the Shares (check one):

- to me; or
- to me and \_\_\_\_\_, as joint tenants with right of survivorship,

at the following address:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

My mailing address for shareholder communications, if different from the address listed above, is:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_



---

Very truly yours,

\_\_\_\_\_  
Non-Employee Director (signature)

\_\_\_\_\_  
Print Name

\_\_\_\_\_  
Date

\_\_\_\_\_  
Social Security Number

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO  
EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a)  
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Paul A. Friedman, M.D., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Madrigal Pharmaceuticals, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Paul A. Friedman, M.D.

Paul A. Friedman, M.D.

Chief Executive Officer and Chairman of the Board

(Principal Executive Officer)

Date: August 6, 2020

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO  
EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a)  
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Marc R. Schneebaum, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Madrigal Pharmaceuticals, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Marc R. Schneebaum

Marc R. Schneebaum

Senior Vice President and Chief Financial Officer

(Principal Financial and Accounting Officer)

Date: August 6, 2020

**CERTIFICATIONS PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 906  
OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. Section 1350)), each of the undersigned officers of Madrigal Pharmaceuticals, Inc., a Delaware corporation (the "Company"), does hereby certify, to such officer's knowledge, that:

The Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2020 (the "Form 10-Q") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 6, 2020

/s/ Paul A. Friedman, M.D.

Paul A. Friedman, M.D.  
Chief Executive Officer and Chairman of the Board  
(Principal Executive Officer)

Dated: August 6, 2020

/s/ Marc R. Schneebaum

Marc R. Schneebaum  
Senior Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)

These certifications accompany the Form 10-Q, are not deemed filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.