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CPH-TSX	
Rating:	Speculative BUY
Target:	\$1.75
Price:	\$0.96
Return:	82%
Valuation:	5x EPS, 3x EV/EBITDA (F2022 ests)

Market Data	
Basic Shares O/S (M)	27.0
Mkt cap (C\$M)	\$25.9
Ent Val (C\$M)	\$22.0
Cash (US\$M)	\$4.7
Debt (US\$M)	\$1.7
52 Week Range (C\$)	\$0.38-\$1.55
Avg. Daily Volume (M)	0.4050
Fiscal Year End	Dec-31

Financial Metrics			
In US\$	2020E	2021E	2022E
Revenue (\$M)	20.4	19.9	18.9
EBITDA (\$M)	12.9	12.5	11.6
Net Inc (\$M)	6.0	8.3	7.7
EPS	\$0.22	\$0.31	\$0.28
P/E	4.3x	3.1x	3.3x
EV/EBITDA	1.7x	1.8x	1.9x

Quarterly Data					
In US\$M		Q1	Q2	Q3	Q4
REVENUE	2021E	4.9	5.0	5.0	4.9
	2022E	4.8	4.8	4.7	4.7
Adj EBITDA	2021E	3.1	3.2	3.2	3.0
	2022E	2.9	2.9	2.9	2.8

Company Description

Cipher is an ON-based specialty pharma firm, with royalty revenue from Galephar-partnered CIP formulations (Absorica, Lipofen, ConZip/Durela) & marketed drugs in Canada (Epuris) providing free cash to fund pipeline diversification in North American markets



Source: Refinitiv

Consummates Co-Promotion Alliance for Part of the Correvio Acute Care Portfolio – Speculative BUY

ON-based dermatology-focused specialty drug developer/marketer Cipher Pharmaceuticals announced a co-promotion relationship for part of the hospital-targeted acute care portfolio that Cipher acquired from BC-based Correvio (now part of Advanz Pharma (private)) back in FQ218, bringing ON-based private specialty pharma firm Verity Pharmaceuticals on board as its partner on this initiative.

The co-promotion relationship is specific to three acute-care cardiovascular drugs that Correvio either developed independently or acquired through the merger of Correvio with Cardiome back in FQ413. This includes the rapid-onset atrial fibrillation drug IV Vernakalant, branded as Brinavess in Canada and in the EU where the drug is also approved; the already-approved acute coronary syndrome drug tirofiban/Aggrastat and NDS-pending pulmonary arterial hypertension PatchPump-based Treprostinil delivery platform Trevyent. The alliance excludes infectious disease-targeted severe skin infection drug dalbavancin/Xydalba, which Correvio originally licensed from Allergan/AbbVie (ABBV-NY, NR) in FQ216, but for which Cipher terminated the agreement back in FQ319. Verity itself did not previously have any cardiovascular assets in its commercial portfolio but its current Rx assets are clearly hospital-based and injectable-focused. These assets include the multidrug-resistant bacterial infection-targeted fosfomycin formulation Ivozfo, plus another injectable prostate cancer-targeted therapy in leuprolide Depot formulation ZeulideDepot. Accordingly, the firm clearly has a focus on hospital-based acute care injectable therapies as is relevant to the three cardiovascular-centered Rx products now being co-promoted by the firm.

Verity's co-promotion efforts for Brinavess should certainly help, but the drug's mixed regulatory history likely limits its peak revenue potential in Canada. Though Brinavess was generating modest sales traction in selected EU nations (specifically Finland and Spain) under Correvio's stewardship, the drug encountered negative FDA review on two separate occasions. The most recent was in FQ419 when the drug encountered a decidedly negative FDA Advisory Panel review, leading Correvio to discontinue efforts to seek regulatory review in that geography. But the drug has sustainably performed well in clinical trials in our view, demonstrating strong cardioversion rates in rapid-onset AF patients in most circumstances and with what we considered to be a favorable safety profile, notwithstanding episodes of drug-associated transient hypotension in some patients and thus a contraindication for AF patients with co-presenting structural heart disease. Verity may be able to leverage EU positive regard for the drug despite FDA caution and so we have positive if modest expectations for Brinavess revenue ramp under Verity's stewardship.

Verity may be able to position Aggrastat well in comparison to other anti-platelet drugs that also target acute coronary syndrome. Aggrastat competes with at least two other approved therapies that target acute coronary syndrome – Takeda (4502-JP, NR)/Millennium's cyclic heptapeptide anti-platelet drug eptifibatide/Integrilin and Eli Lilly's (LLY-NY, NR) glycoprotein IIb/IIIa receptor antagonist mAb abciximab/ReoPro, and MB-based cardiovascular drug marketer Medicure (MPH-T, NR) has generated solid US sales in recent years that show us that Aggrastat could perform well on a population-proportionate basis in Canada as well, with prudent marketing.

Exhibit 1. Income Statement and Financial Forecasts for Cipher Pharmaceuticals

Fiscal year-end Dec 31

(US\$000, except EPS)	2014A	2015A	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E
US, royalty revenue										
Royalty revenue (ConZip, Durela)	1,909	1,658	1,940	1,072	552	600	460	442	482	482
Royalty/licens revenue (Lipofen)	5,072	4,561	4,375	3,842	2,378	2,312	2,159	2,063	1,907	1,944
Royalty/licens revenue (Absorica, US)	18,575	19,627	17,620	30,127	12,942	11,300	9,283	9,122	8,156	7,986
Canada, direct Rx sales										
Revenue (CIP-isotretinoin, Cda)	1,868	2,743	3,700	4,646	5,813	7,300	7,839	7,467	7,467	7,467
Revenue, Vaniqa/Actikerall/ Beteflam/other	0	452	400	633	1,064	939	632	770	936	1,137
Milestone payment recognition	1,800	1,700	1,620	0	0	0	0	0	0	0
Rev, Innocutis (Sitavig [US])	0	1,675	4,175	0	0	0	0	0	0	0
Rev, Innocutis (Sitavig [Cda])	0	0	0	0	0	0	0	0	0	0
Rev, Innocutis (Nuvail/Bionect [US])	0	3,652	6,910	0	0	0	0	0	0	0
Total revenue	\$29,224	\$30,740	\$29,655	\$40,320	\$22,749	\$22,451	\$20,373	\$19,864	\$18,948	\$19,017
Revenue growth (%)	12%	5%	(\$4%)	36%	(\$44%)	(\$1%)	(\$9%)	(\$2%)	(\$5%)	0%
Operational expenses	9,416	24,059	35,372	13,774	15,984	9,822	7,497	7,346	7,346	7,346
EBITDA	\$19,808	\$6,681	(\$5,717)	\$26,546	\$6,765	\$12,629	\$12,876	\$12,519	\$11,602	\$11,671
EBITDA growth (%)	4%	(66%)	NA	NA	(75%)	87%	2%	(3%)	(7%)	1%
EBITDA margin (%)	67.8%	21.7%	NA	65.8%	29.7%	56.3%	63.2%	63.0%	61.2%	61.4%
Non-operating expenses	\$1,883	\$6,633	\$36,022	\$1,271	\$3,379	\$4,570	\$1,386	\$1,360	\$1,360	\$1,360
Net interest expense (income)	(\$441)	\$3,453	\$7,723	\$5,292	\$712	\$786	\$243	(\$20)	(\$20)	(\$20)
Tax expense, exc carryforwards	(\$380)	(\$2,916)	\$1,492	\$3,518	\$1,922	\$3,071	\$4,947	\$2,780	\$2,551	\$2,568
Net income	\$18,746	(\$1,634)	(\$50,234)	\$10,747	\$1,201	\$2,639	\$6,003	\$8,339	\$7,652	\$7,703
Fully-taxed EPS (basic)	\$0.74	(\$0.06)	(\$1.92)	\$0.40	\$0.04	\$0.10	\$0.22	\$0.31	\$0.28	\$0.29
Fully-taxed EPS (fd)	\$0.70	(\$0.06)	(\$1.82)	\$0.39	\$0.04	\$0.10	\$0.22	\$0.29	\$0.27	\$0.27
P/E (basic)	1.3x	NA	NA	2.4x	21.2x	9.7x	4.3x	3.1x	3.3x	3.3x
EV/EBITDA	1.1x	3.3x	NA	0.8x	3.3x	1.8x	1.7x	1.8x	1.9x	1.9x

Source: Historical Data – Cipher Pharmaceuticals; Forecasts/Estimates – Leede Jones Gable

Annual US Aggrastat sales were in the C\$25M-C\$30M range during F2016-to-F2018 before declining in F2019 to \$19M-\$20M and below that on a run-rate basis in F2020, though with recent quarterly stabilization at/near \$3.0M-\$3.5M. FDA approval of a high-dose bolus dosing in 2013 seems to have facilitated US market share growth since then as compared to the other two drugs indicated above.

Trevyent is not yet Health Canada-approved, and regulatory documents are unlikely to be filed until US regulatory status for the drug is resolved. Trevyent's revenue prospects in Canada even with Verity's pending co-promotion efforts are still unclear, as US innovator United Therapeutics (UTHR-Q, NR)/Steadymed has been denied FDA approval now on two separate occasions, and a renewed NDA filing is still pending. In its Jan/21 investor presentation, United only claims that it will respond to its previous FDA response sometime this year. The firm just this month received FDA approval for an alternative Treprostinil pump-delivery platform Remunity, so FDA appears willing to consider the medical utility of subcutaneous pump-based Treprostinil delivery for pulmonary arterial hypertension, which characterizes Trevyent as well. We do not expect Cipher to submit a NDS filing for Trevyent until clarity on FDA regard is established, probably no earlier than end-of-F2021.

We assume that Cipher will continue to independently market its suite of approved orally-active dermatology drugs, led in Canada by Epuris. Predictably, the Verity agreement does not overlap with Cipher's flagship cystic acne-targeted CIP-isotretinoin formulation Epuris, for which Cipher is generating strong market share through its own sales efforts. Nor does it include CIP-Tramadol formulation Durela that is already partnered with Aralez Pharmaceuticals (private) but which contributes minimally to Cipher's quarterly top-line performance anyway. Other Health Canada-approved chronic care orally-active therapies like impetigo-targeted ozenoxacin formulation Ozanex, psoriasis-focused topical betamethasone formulation Betaflam, actinic keratosis-focused 5-fluorouracil/salicylic acid formulation Actikerall, and hair removal difluoro-methylornithine formulation Vaniqa contribute minimally to consolidated revenue and regardless, can be marketed effectively into dermatology markets that

overlap with Epuris. And two other attractive Rx assets in Cipher's portfolio – adenosine receptor agonist CF101/piclidonoson (from Can-Fite Biopharma) and MOB-015/topical terbinafine (from Moberg Pharma; MOB-STO, NR) are still in active Phase III clinical testing (see below) and thus do not yet contribute to our contemporary revenue/EBITDA projections.

Verity's interests in Brinavess-Aggrastat-Treventin certainly provide upside to cumulative revenue prospects for this CV portfolio, but growth is starting from a low base that is currently insignificant to our forecasts. The Verity co-promotion agreement while positive does not overly impact our CPH valuation and model because none of the relevant drugs contribute materially to our current F2021-F2023 revenue forecasts. And even if strong sequential sales growth were achieved for one or more of the Correio CV drugs, we do not expect cumulative supplemental sales to rival those currently achieved for leading brands Absorica, Epuris, and Lipofen on which a preponderance of our revenue/EBITDA forecasts are based. Regardless, we endorse Cipher's decision to solicit interest from its specialty pharma peers that have greater marketing bandwidth into hospital acute care markets, which Verity clearly does.

Exhibit 2. Valuation Summary For Cipher Pharmaceuticals

Price/earnings multiple, F2022	2x	3x	4x	5x	6x	7x	8x
Implied share price ¹	\$0.57	\$0.85	\$1.14	\$1.42	\$1.70	\$1.99	\$2.27
EV/EBITDA multiple, F2022	1x	2x	2.5x	3x	3.5x	4x	5x
Implied share price ¹	\$0.54	\$0.76	\$1.19	\$1.41	\$1.62	\$1.84	\$2.27
One-year Cipher target price (US\$)				\$1.41			
One-year Cipher target price (C\$)				\$1.79			

¹ Based on F2022 adj EBITDA forecast of US\$11.6M, F2022 adj EPS of US\$0.28, fd S/O 27.9M

² Based on 5x EPS, 3x EV/EBITDA (F2022), FQ320 cash of US\$4.7M; total debt of US\$1.7M; PT assumes a USD:CAD exchange rate of 1.27x

Source: Historical Data – Cipher Pharmaceuticals; Forecasts/Estimates – Leede Jones Gable

Absorica royalty revenue from partner Sun Pharma still largely drives near-term cash flow, and our valuation. Shifting to broader commentary on our CPH investment thesis, we continue to be focused on US Absorica sales and the ongoing commercial alliance with Sun Pharma (524715-BOM, NR). The latter just launched its alternative formulation Absorica LD back in FQ120 and which we assume will be preferentially marketed to US dermatologists as a way to extend Absorica's brand lifespan and its patent exclusivity. New patents are ascribed to LD, including US#10,517,846 issued last year to Dr. Reddy's (RDY-NY, NR) Laboratories and US#9,750,711 issued in 2017 to Sun Pharma [SUN-BO, NR] itself, with the latter patent listed in the US FDA's Orange Book and thus relevant to Absorica LD's duration of market exclusivity. Sun has commented on prior conference calls that it has not been as focused on LD promotion as it wished to be in prior quarters and with that limitation clearly acknowledged by the firm, we expect LD to be more intensely promoted in future periods.

We stand by our view that Sun's revenue success with Absorica will sustain its motivation to actively promote newly-launched variant Absorica LD. We were interested to see that the IL-based drug developer Skyline Biosciences (Private) received a new US patent describing a mucoadhesive isotretinoin formulation, but the firm appears to be focused on oral cancer and oral precancerous lesions and not on dermatology markets currently targeted by Cipher and partner Sun Pharma. The formulation is codenamed SBS-101 and is currently enrolling subjects in a 24-patient Phase I oral premalignant lesion study for which final data are expected in 2023. We reflect with additional interest on the number of ongoing clinical studies, usually sponsored by academic institutions or hospitals in the Middle East (specifically Egypt) and not corporate interests, that are exploring the utility of isotretinoin in mitigating COVID-19 infection symptoms.

The drug has a documented impact on downregulating the ACE2 receptor in lung epithelia to which the COVID-19 surface protein binds, and so its potential in mitigating symptoms through attenuating receptor expression levels is being actively explored. We see little evidence that Absorica is being specifically tested on this theme, but if indeed orally-active isotretinoin formulations show themselves to be relevant in mitigating COVID-19 lung pathology, we could certainly see Absorica itself share proportionate market share with other generic isotretinoin formulations. Our model assumes that Absorica is exclusively marketed to US dermatologists as a cystic acne therapy.

On the milestone watch, we are focused on quarterly Absorica/Epuris revenue as a growth driver for EBITDA, which collectively generate 78%-86% of Cipher's top-line quarterly performance in recent years. We believe that capital markets have been focused for some time on pending generic isotretinoin competition specifically from Allergan/AbbVie that has a contractual ability to launch a generic form. Absorica's core US patents expire in Sept/21, but Cipher/Galephar and Allergan/AbbVie negotiated the revised timeline back in FQ415. As of this writing, Allergan/AbbVie do not have an approved generic Absorica formulation listed in the US FDA's Orange Book.

Exhibit 3. Revenue Projections for Cipher Pharmaceuticals – Absorica/Epuris (CIP-Isotretinoin)-Lipofen (CIP-Fenofibrate)-ConZip/Durela (CIP-Tramadol)

Year-end December 31 (US\$000, except per share data)	4Q-20E	1Q-21E	2Q-21E	3Q-21E	4Q-21E	1Q-22E	2Q-22E	3Q-22E	4Q-22E	2019A	2020E	2021E	2022E	2023E
GALEPHAR-PARTNERED CIP-FORMULATED Rx PRODUCT FORECASTS														
CIP-Fenofibrate (Lipofen)														
Market size (all forms), annual prescription data	573,819	602,510	602,510	602,510	602,510	632,635	632,635	632,635	632,635	2,185,977	2,295,275	2,410,039	2,530,541	2,657,068
ASP per annual course of therapy (160 mg strength)	\$361	\$361	\$361	\$361	\$361	\$361	\$361	\$361	\$361	\$361	\$361	\$361	\$361	\$361
Market size, by total sales at generic pricing (US\$000)	\$207,349	\$217,717	\$217,717	\$217,717	\$217,717	\$228,603	\$228,603	\$228,603	\$228,603	\$789,903	\$829,398	\$870,868	\$914,411	\$960,132
Estimated Lipofen market share by revenue, US (%)	3.40%	3.00%	3.00%	2.90%	2.80%	2.70%	2.60%	2.50%	2.50%	3.25%	2.89%	2.63%	2.32%	2.25%
Gross Lipofen sales (US\$000)	\$7,052	\$6,532	\$6,532	\$6,314	\$6,096	\$6,172	\$5,944	\$5,715	\$5,715	\$28,543	\$26,657	\$25,473	\$23,546	\$24,003
Less: Direct costs (assume 10% gross sales)	(\$705)	(\$653)	(\$653)	(\$631)	(\$610)	(\$617)	(\$594)	(\$572)	(\$572)	(\$2,854)	(\$2,666)	(\$2,547)	(\$2,355)	(\$2,400)
Royalty from Kowa Pharmaceuticals	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%
Net Lipofen royalty revenue (US\$000)	\$571	\$529	\$529	\$511	\$494	\$500	\$481	\$463	\$463	\$2,312	\$2,159	\$2,063	\$1,907	\$1,944
Net Lipofen royalty revenue (C\$000)	\$727	\$673	\$673	\$651	\$628	\$636	\$612	\$589	\$589	\$2,941	\$2,747	\$2,625	\$2,426	\$2,473
CIP-Tramadol (ConZip, US)														
Annual once-daily Tramadol sales (US\$000)	\$23,718	\$23,718	\$23,718	\$23,718	\$23,718	\$23,718	\$23,718	\$23,718	\$23,718	\$94,872	\$94,872	\$94,872	\$94,872	\$94,872
Estimated ConZip market share, US (%)	3.00%	4.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	5.27%	4.26%	5.5%	6.0%	6.0%
Gross ConZip sales (US\$000)	\$712	\$949	\$1,423	\$1,423	\$1,423	\$1,423	\$1,423	\$1,423	\$1,423	\$5,556	\$4,416	\$5,218	\$5,692	\$5,692
Less: Direct costs (assume 10% gross sales)	(\$71)	(\$95)	(\$142)	(\$142)	(\$142)	(\$142)	(\$142)	(\$142)	(\$142)	(\$556)	(\$442)	(\$522)	(\$569)	(\$569)
Royalty from Vertical/Osmotica Pharmaceuticals	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
ConZip royalty revenue (US\$000)	\$43	\$57	\$85	\$85	\$85	\$85	\$85	\$85	\$85	\$300	\$243	\$313	\$342	\$342
ConZip royalty revenue (C\$000)	\$54	\$72	\$109	\$109	\$109	\$109	\$109	\$109	\$109	\$382	\$309	\$398	\$435	\$435
CIP-Tramadol (Durela, Canada)														
Annual once-daily Tramadol sales (C\$000)	\$6,618	\$6,618	\$6,618	\$6,618	\$6,618	\$6,618	\$6,618	\$6,618	\$6,618	\$26,472	\$26,472	\$26,472	\$26,472	\$26,472
Estimated Durela market share by revenue, Cda (%)	3.00%	4.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	10.07%	7.47%	5.5%	6.0%	6.0%
Gross Durela sales (US\$000)	\$199	\$265	\$397	\$397	\$397	\$397	\$397	\$397	\$397	\$2,667	\$1,976	\$1,456	\$1,588	\$1,588
Less: Direct costs (assume 10% gross sales)	(\$20)	(\$26)	(\$40)	(\$40)	(\$40)	(\$40)	(\$40)	(\$40)	(\$40)	(\$267)	(\$198)	(\$146)	(\$159)	(\$159)
Royalty from Medical Futures/Aralez Pharmaceuticals	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%
Durela royalty revenue (C\$000)	\$22	\$30	\$45	\$45	\$45	\$45	\$45	\$45	\$45	\$300	\$222	\$164	\$179	\$179
Durela royalty revenue (US\$000)	\$18	\$23	\$35	\$35	\$35	\$35	\$35	\$35	\$35	\$300	\$218	\$129	\$140	\$140
CIP-Isotretinoin (Epuris, Canada)														
Annual generic isotretinoin sales (C\$000)	\$6,500	\$6,500	\$6,500	\$6,500	\$6,500	\$6,500	\$6,500	\$6,500	\$6,500	\$26,000	\$26,000	\$26,000	\$26,000	\$26,000
Estimated Absorica market share by revenue, Canada (%)	38.00%	38.00%	40.00%	41.00%	39.00%	38.00%	40.00%	41.00%	39.00%	38.6%	41.5%	39.5%	39.5%	39.5%
Gross CIP-isotretinoin sales, Canada (C\$000)	\$2,470	\$2,470	\$2,600	\$2,665	\$2,535	\$2,470	\$2,600	\$2,665	\$2,535	\$10,040	\$10,781	\$10,270	\$10,270	\$10,270
Gross CIP-isotretinoin sales, Canada (US\$000)	\$1,942	\$1,942	\$2,044	\$2,095	\$1,993	\$1,942	\$2,044	\$2,095	\$1,993	\$7,892	\$8,474	\$8,073	\$8,073	\$8,073
Less: assumed royalty to Galephar	(\$146)	(\$146)	(\$153)	(\$157)	(\$149)	(\$146)	(\$153)	(\$157)	(\$149)	(\$592)	(\$636)	(\$605)	(\$605)	(\$605)
Galephar royalty	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%
Net CIP-Isotretinoin revenue (US\$000)	\$1,796	\$1,796	\$1,890	\$1,938	\$1,843	\$1,796	\$1,890	\$1,938	\$1,843	\$7,300	\$7,839	\$7,467	\$7,467	\$7,467
CIP-Isotretinoin (Absorica, US)														
Annual generic isotretinoin sales (US\$000)	\$133,822	\$136,498	\$136,498	\$136,498	\$136,498	\$139,228	\$139,228	\$139,228	\$139,228	\$524,792	\$535,288	\$545,993	\$556,913	\$568,051
Estimated Absorica market share, US (%)	8.50%	8.50%	8.30%	8.10%	7.90%	7.50%	7.25%	7.00%	7.00%	10.57%	8.51%	8.2%	7.2%	6.9%
Pricing escalation factor for branded isotretinoin	2.5x	2.5x	2.5x	2.5x	2.5x									
Gross Absorica sales (US\$000)	\$28,613	\$29,185	\$28,498	\$27,812	\$27,125	\$26,266	\$25,391	\$24,515	\$24,515	\$126,936	\$114,600	\$112,620	\$100,688	\$98,594
Less: Direct costs (assume 10% gross sales)	(\$2,861)	(\$2,918)	(\$2,850)	(\$2,781)	(\$2,712)	(\$2,627)	(\$2,539)	(\$2,452)	(\$2,452)	(\$12,694)	(\$11,460)	(\$11,262)	(\$10,069)	(\$9,859)
Royalty from Ranbaxy Laboratories/Sun Pharma	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%
Absorica royalty revenue (US\$000)	\$2,318	\$2,364	\$2,308	\$2,253	\$2,197	\$2,128	\$2,057	\$1,986	\$1,986	\$11,300	\$9,283	\$9,122	\$8,156	\$7,986
Total CIP product/royalty revenue (US\$000)	\$4,745	\$4,769	\$4,848	\$4,822	\$4,655	\$4,544	\$4,549	\$4,507	\$4,412	\$21,512	\$19,741	\$19,095	\$18,012	\$17,880

Source: Historical Data – Cipher Pharmaceuticals; Forecasts/Estimates – Leede Jones Gable

And on the clinical milestone watch, we continue to monitor Phase III advances for licensed Can-Fite adenosine receptor agonist drug piclidenoson/CF-101, for which patient enrollment continues in a 525-patient Phase III moderate-to-severe plaque psoriasis trial (the Comfort trial), for which final four-month PASI score data are expected by early F2022. Interim analysis in FQ320 by the trial's IDMC (Independent Data Monitoring Committee, equivalent to a Data Safety Monitoring Board for North America-based trials) recommended that the trial continue as planned. Can-Fite is separately conducting a 40-patient four-week Phase II COVID-19 trial at the Tel Aviv-based Rabin Medical Center, for which final data on frequency of respiratory failure and viral load reduction could be available by end-of-F2021. And for Moberg's topical terbinafine formulation MOB-015, the firm has

already completed two Phase III nail fungus studies in the EU, where it plans to submit regulatory documents to EMA during FH221 (review should conclude before end-of-F2022 and launch in F2023) and discussions on next steps in the US are ongoing.

Exhibit 4. Peer Firms for Cipher Pharmaceuticals – EBITDA-Positive Canadian Healthcare Firms/Specialty Pharma Firms

Company	Filing Curr.	Sym.	Shares		Mkt Cap (\$M)	Ent. Value (\$M)	EV/EBITDA			Price/Earnings		
			Out. (M)	Share Price 09-Feb-21			(T12)	(2021)	(2022)	(T12)	(2021)	(2022)
Profitable Canadian healthcare firms												
Akumin	USD	AKU.U	70.2	\$4.01	281	701	8.4	8.6	NA	NA	24.3	NA
Bausch Health	USD	BHC	355.2	\$29.20	10,370	34,117	10.9	9.9	9.2	NA	6.6	6.0
BioSynt	CAD	RX	12.9	\$7.71	100	79	12.1	11.5	10.9	23.8	20.3	NA
CareRx	CAD	CRRX	28.0	\$4.90	137	205	23.4	9.1	8.2	NA	NA	NA
Chartwell REIT	CAD	CSH.U	215.8	\$9.36	2,020	4,781	17.8	17.0	16.1	NA	NA	NA
CRH Medical ¹	USD	CRH	71.4	\$4.90	350	397	12.9	10.7	11.3	NA	NA	54.4
Extencare REIT	CAD	EXE	89.5	\$6.33	567	973	8.5	10.3	9.2	17.8	22.2	17.6
HLS Therapeutics	USD	HLS	31.8	\$16.65	530	510	24.9	13.5	7.6	NA	NA	20.4
K-Bro Linen	CAD	KBL	10.7	\$36.38	388	488	14.9	11.5	10.0	NA	35.8	22.0
Knight Therapeutics	CAD	GUD	130.0	\$5.55	722	366	20.9	16.3	14.0	26.5	NA	44.4
Medexus	CAD	MDP	14.5	\$8.75	127	189	17.4	12.3	8.5	NA	NA	NA
Medical Facilities ¹	USD	DR	31.1	\$6.91	215	354	4.4	4.0	3.9	3.2	20.0	20.9
Mimi's Rock	CAD	MIMI	52.5	\$0.45	24	42	16.6	6.2	5.2	NA	5.6	4.7
Neptune Wellness Solutions	CAD	NEPT	129.5	\$3.32	430	453	NA	NA	21.6	NA	NA	NA
Northwest Healthcare	CAD	NWH.U	176.0	\$13.11	2,307	5,834	22.5	19.0	18.6	14.8	20.5	11.7
Protech Home Medical	CAD	PTQ	117.5	\$2.49	293	288	6.1	9.8	7.9	NA	42.4	19.3
Sienna Senior Living	CAD	SIA	67.0	\$13.10	878	1,851	18.0	16.0	15.0	NA	NA	NA
Theratechnologies	USD	TH	93.7	\$3.39	318	296	NA	NA	NA	NA	NA	NA
Viemed	USD	VMD	39.2	\$12.55	492	371	12.5	12.7	15.6	17.2	35.1	NA
Average							14.8x	11.7x	11.3x	17.2x	23.3x	22.2x
Profitable specialty pharmaceutical firms												
AbbVie	USD	ABBV	1765.5	\$105.40	186,081	262,296	NA	9.0	8.4	NA	8.5	7.7
Fresenius	EUR	FREG	557.5	\$35.02	19,525	53,717	7.5	7.4	6.8	10.8	10.4	9.3
Bausch Health	USD	BHC	355.2	\$29.20	10,370	34,117	10.9	9.9	9.2	NA	6.6	6.0
BioSynt	CAD	RX	12.9	\$7.71	100	79	12.1	11.5	10.9	23.8	20.3	NA
Cardinal Health	USD	CAH	293.7	\$52.95	15,550	18,391	6.7	6.4	6.0	11.2	8.8	8.5
Dr. Reddy Labs	INR	500124	165.9	Rp4,846	Rp804,046	Rp799,413	18.0	17.5	15.1	30.1	31.4	25.3
Endo Health Solutions	USD	ENDO	230.3	\$9.32	2,146	8,776	6.9	6.9	7.3	NA	4.0	4.1
Gilead Sciences	USD	GILD	1253.5	\$67.30	84,362	105,292	18.1	7.7	8.6	NA	9.4	9.9
Horizon Therapeutics	USD	HZNP	220.7	\$86.98	19,197	19,395	31.0	17.6	12.9	21.5	22.3	15.8
Ionis Pharmaceuticals	USD	IONS	139.8	\$59.33	8,296	6,817	NA	NA	NA	NA	NA	NA
Jazz Pharmaceuticals	USD	JAZZ	55.7	\$167.54	9,334	9,467	12.0	7.6	6.8	51.8	10.0	9.1
Mallinckrodt	USD	MNKKQ	84.6	\$0.46	39	4,440	4.0	4.9	5.1	NA	0.1	0.1
Perrigo	USD	PRGO	136.5	\$43.90	5,992	8,956	10.0	9.3	8.8	NA	10.3	9.7
Sun Pharma/Ranbaxy	INR	524715	2399.3	Rp624	Rp1,496,465	Rp1,558,025	19.7	18.4	16.8	NA	25.0	24.5
Teva Pharmaceuticals	USD	TEVA	1096.0	\$12.81	14,039	37,267	7.9	7.4	7.3	NA	4.9	4.7
United Therapeutics	USD	UTHR	44.4	\$166.28	7,390	6,754	10.5	10.3	10.4	15.7	13.6	12.7
Average							12.5x	10.1x	9.4x	23.6x	12.4x	10.5x
Cipher Pharmaceuticals	USD	CPH	27.0	\$0.76	20	17	1.3x	1.7x	1.8x	2.9x	4.1x	3.7x

¹ Share price converted to USD for stocks reporting financial data in USD but for which share value is reported in CAD

Source: Refinitiv

Summary and valuation. We are maintaining our Speculative BUY rating and one-year PT of \$1.75 on CPH, with our valuation is based on sustainably positive EBITDA/margin contribution from Absorica/Epuris despite potential for generic competition in the US. This is mainly because we believe partner Sun Pharma will continue to support the brand through Absorica LD promotion, and perhaps through leveraging its own isotretinoin-based intellectual property to develop next-generation isotretinoin formulations to further monetize Absorica's US brand equity. In our initiation report published last month, we summarized the clinical literature for Absorica that conclusively shows that its superior PK profile to other generic isotretinoin forms (its Lidose

formulation allows the drug to be similarly absorbed under fed or fasting conditions, an important metric for sustainable AUC data for a comparatively hydrophobic vitamin A analog like 13-cis retinoic acid/isotretinoin).

Our F2022 EBITDA/EPS forecasts of US\$11.6M/US\$0.28, to which we ascribe multiples of 3x/5x respectively, are unchanged and are as shown in Exhibit 2. Our F2021/22 revenue forecasts of US\$19.9M/US\$18.9M respectively (Exhibit 1) are also unchanged and include US\$17.6M/US\$18.0M in combined Absorica royalties/Epuris gross sales, which cumulatively representing 83% of our top line projections in both years. Cipher's reporting currency is still USD, but this is a remnant of the firm's now-divested US dermatology operations and we believe it may be prudent in the next few quarters to report financial data back in the currency at which its shares are publicly-traded on the TSX.

As shown in Exhibit 4, CPH is trading at a sizable discount to its specialty pharmaceutical peers, undoubtedly because of the firm's dependence on Absorica royalty revenue for EBITDA/free cash flow. While we believe that the magnitude of the discount is unjustifiably excessive, we believe that Cipher will need to explore ways to augment its Canadian Rx portfolio, ideally in dermatology, to mitigate overall business risk. Repayment of outstanding debt should have wound down in FQ420, freeing up Absorica-derived cash flow to non-dilutively fund pipeline build-out. **At current levels, our PT corresponds to a one-year return of 82%.**

Disclosures none

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Hold	1	6.7%
Sell	-	-
Tender	-	-
Under Review	-	-

Price Target History

