Cipher Pharmaceuticals | CPH-TSX

Update

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CPH-TSX

Rating:	Buy
Target:	$19.50 (was $22.25)
Price:	$14.50
Return:	34.5%
Valuation:	20x EPS, 12.5x EBITDA (F2027 estimates)

Market Data

Basic Shares O/S (M)	25.4
Mkt cap (C$M)	$368.2
Ent Val (C$M)	$355.5
Pro forma cash (C$M)	$12.7
Debt (C$M)	$0.0
52 Week Range (C$)	$12.48-$20.56
Avg. Daily Volume (M)	0.0902
Fiscal Year End	31-Dec

Financial Metrics

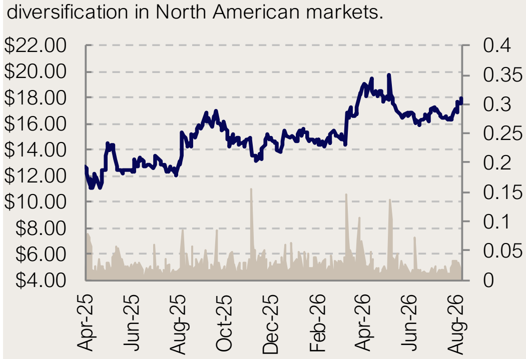
In US$	2026E	2027E	2028E
Revenue ($M)	51.3	54.2	55.2
EBITDA ($M)	29.9	31.6	32.3
Net Inc ($M)	19.9	19.9	20.5
EPS (fd, fully-taxed)	$0.75	$0.75	$0.78
P/E	*13.3x*	*13.3x*	*12.9x*
EV/EBITDA	*8.6x*	*8.1x*	*8.0x*

Quarterly Data

In US$M		Q1	Q2	Q3	Q4
Revenue	2026E	12.5	12.1	12.9	13.8
	2027E	13.4	13.4	13.9	13.5
Adj EBITDA	2026E	7.7	6.6	7.6	8.0
	2027E	7.8	7.8	8.1	7.9

Company Description

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



Source: Refinitiv, Leede Financial

US Natroba Sales Softness Offset By Canadian Epuris Strength Leads To Mixed FQ226 Results – PT Revision, Maintaining Buy

ON-based specialty pharmaceutical firm Cipher Pharmaceuticals reported FQ226 financial data for the June-end quarter that experienced modest sequential softness on Rx sales-EBITDA-cash flow, but with all three metrics quite close to data that Cipher reported just two quarters ago in FQ425 & thus with FQ226 representing more of a re-calibration on growth trajectory, notably on head lice/scabies-targeted Spinosyn A & D topical formulation Natroba, than a justification for us to revisit our investment thesis on the stock.

Bottom line. We are maintaining our BUY rating on CPH while slightly revising our PT to C$19.50 from C$22.25, mostly on adjusting our base-case Natroba sales projections than on any reconstructive surgery on our margin expectations or on any other revenue expectations for Cipher's mostly-dermatology-focused Rx portfolio. As before, we base our valuation on multiples of our F2027 adjusted EBITDA/EPS forecasts of US$31.6M & US$0.75/shr, respectively & as shown in Exhibits 1 & 2.

Our EV calculation incorporates FQ226 balance sheet data (cash of US$9.1M/ C$12.7M, no LT debt which Cipher completely paid down to nil during FQ425) & basic S/O of 24.5M. Our revised PT still corresponds to a one-year return of 34.5% in comparison to CPH share price as of this writing [see above], mindful that CPH shares could continue to re-equilibrate during the present trading session.

CPH is up 1,129% since we reinitiated research coverage under the Leede banner & we continue to reflect favorably on multiple growth drivers for Cipher's existing Rx operations, independent of any new product in-licensing transactions or more transformational M&A activity that the firm may undertake in coming quarters & which we actually expect though without any specific timeframe embedded into our model.

FQ226 narrative is a balance of Natroba sales softness, at least in comparison to recent quarters, & Epuris sales strength. On a consolidated basis, Cipher generated FQ226 revenue/EBITDA/margin of US$12.1M/US$6.6M/54.6% that on were strong in absolute terms in our view & also by comparison to Cipher's specialty pharmaceutical peers that usually record EBITDA margin that is below that value, but in comparison to Cipher's own standards, results were soft at least in comparison to FQ126 data (US$12.5M/US$7.7M/61.6%) & to FQ225 data (US$13.4M/US$7.2M/ 54.1%), though with FQ225 EBITDA margin essentially at FQ226 level.

FQ226 operating cash flow (excluding a sizable working capital deficit of [US$3.6M] that we expect to be transient) was highly similar to EBITDA at US$6.7M, or US$0.27/shr, down from US$7.7M in FQ126 but down less dramatically from US$6.9M in FQ225. Cipher has no LT debt & thus debt-based financial ratios no longer apply as elements of business risk for the firm, unlike most of the EBITDA-positive healthcare services or specialty pharmaceutical firms in our coverage universe.

FQ226 Natroba sales were $6.3M & thus down from both FQ126 sales of US$7.4M & from FQ225 sales of US$7.8M, with Cipher citing softness on the number of Medicaid-eligible patients who received Natroba under state-sponsored Medicaid programs.We recall that one of the Natroba revenue drivers that Cipher emphasized in prior quarters was the establishment of Natroba on Medicaid Preferred Drug Listings, notably as announced for the state of Illinois back in Apr/25, & this still seems like a plausible component of a broader marketing/reimbursement strategy for the drug even if it was a major culprit in generating sequential revenue decline in the trailing quarter.

This explanation for Natroba's FQ226 sales softness is not without supporting evidence, as we depict graphically in Exhibit 3, showing that the proportion of the US population that is eligible for Medicaid-funded healthcare services & Rx therapies declined last year, admittedly from a historically high proportion during F2022-to-F2023 of 28.18%-to-29.15% but then declining to 25.95% of US citizens in F2024 (data published by the US Centers for Medicare & Medicaid Services & reproduced by the organization USAFacts.org). Clearly that trendline of declining Medicaid-eligible patients could have impacted any of the last several Natroba quarters that Cipher reported, including its own historic high of US$8.1M in FQ325 just as relevantly as in FQ226, but Exhibit 3 does provide tangible data in support of Cipher's justification for recent Natroba sales softness & we will watch for the firm to respond strategically by expanding its marketing/reimbursement reach into other realms.

Exhibit 1. Financial Forecast Summary for Cipher

Fiscal year-end Dec 31 (US$000, except EPS)	2018A	2019A	2020A	2021A	2022A	2023A	2024A	2025A	2026E	2027E	2028E
US/RoW, royalty revenue											
Royalty rev, ConZip (US)	552	600	500	430	152	138	33	154	119	188	188
Royalty rev, Lipofen (US)	2,378	2,312	2,400	2,331	2,850	2,175	2,045	1,600	1,841	1,887	1,963
Royalty rev, Absorica (US)	12,942	11,300	9,929	7,648	5,143	6,148	4,545	1,800	2,397	2,185	2,185
Royalty rev, Natroba (RoW)	0	0	0	0	0	0	0	0	554	1,342	1,375
Canada/US, direct Rx sales											
Revenue, Epuris (Cda)	5,813	7,300	8,100	10,885	11,330	10,848	12,980	14,700	15,661	15,242	15,242
Revenue, Vaniqa/Actikerall/ Beteflam/other (Cda)	1,064	939	678	650	1,200	1,753	1,780	2,200	2,137	2,296	2,486
Revenue, Natroba (US)	0	0	0	0	0	0	11,980	29,997	28,267	29,533	30,244
Revenue, Natroba (Cda)	0	0	0	0	0	0	0	0	353	1,477	1,512
Total revenue	$22,749	$22,451	$21,607	$21,944	$20,675	$21,162	$33,363	$50,451	$51,327	$54,150	$55,195
Revenue growth (%)	*(43.6%)*	*(1.3%)*	*(3.8%)*	*1.6%*	*(5.8%)*	*2.4%*	*57.7%*	*51.2%*	*1.7%*	*5.5%*	*1.9%*
Operational expenses	15,984	9,822	8,116	9,294	8,233	8,712	18,237	24,968	21,438	22,513	22,938
EBITDA	$6,765	$12,629	$13,491	$12,650	$12,442	$12,450	$15,126	$25,483	$29,889	$31,637	$32,257
EBITDA growth (%)	*(74.5%)*	*86.7%*	*6.8%*	*(6.2%)*	*(1.6%)*	*0.1%*	*21.5%*	*68.5%*	*17.3%*	*5.8%*	*2.0%*
EBITDA margin (%)	*29.7%*	*56.3%*	*62.4%*	*57.6%*	*60.2%*	*58.8%*	*45.3%*	*50.5%*	*58.2%*	*58.4%*	*58.4%*
Non-operating expenses	$3,379	$4,570	$6,598	$1,593	$1,392	$2,417	$9,992	$7,285	$9,071	$8,400	$8,400
Net interest exp (income)	$712	$786	$291	$80	($464)	($1,870)	($330)	$1,165	$36	$0	$0
Tax expense, exc tax loss carry-forward	$1,922	$3,071	$3,554	$3,413	($847)	($4,965)	$54	$12	$2,427	$4,963	$5,118
Net income, fully-taxed	$1,201	$2,639	$4,386	$7,759	$26,636	$20,383	$11,546	$27,329	$19,884	$19,853	$20,473
Fully-taxed EPS (basic)	$0.04	$0.10	$0.16	$0.29	$1.06	$0.81	$0.45	$1.08	$0.78	$0.78	$0.81
Fully-taxed EPS (fd)	$0.04	$0.10	$0.16	$0.28	$1.01	$0.78	$0.43	$1.03	$0.75	$0.75	$0.78
P/E (basic)	*232.0x*	*106.1x*	*64.1x*	*35.5x*	*9.9x*	*12.9x*	*22.9x*	*9.7x*	*13.3x*	*13.3x*	*12.9x*
EV/EBITDA	*38.1x*	*20.4x*	*19.1x*	*20.4x*	*20.7x*	*20.7x*	*17.0x*	*10.1x*	*8.6x*	*8.1x*	*8.0x*

Source: Historic data – Cipher financial filings; Forecasts/Estimates – Leede Financial Inc.

Still multiple Natroba revenue growth drivers for Cipher, including global expansion & capturing US market share from permethrin. One of these initiatives that we endorse is to make Natroba available through as many retail pharmacy chains as it can, one of these is within the Walmart department store chain that certainly has scale of operations to drive Natroba adoption in coming quarters, as could similar relationships with other Rx distribution firms with which we assume discussions are ongoing.

But on a higher level, we still expect Natroba quarterly sales growth to be driven by multiple other elements, including the fact that the anti-microbial therapy is not yet vulnerable to mutated head lice or scabies forms that in recent years have become resistant to the other major anti-microbial agent used for head lice/scabies mitigation, GSK's (GSK-LN, NR) permethrin formulation Nix. Characterization of mutated heat lice/scabies organisms in various geographies that are resistant to pyrethroid action is well-documented in the medical literature, with nineteen new peer-reviewed studies published this year alone that describe novel mutated forms in various emerging markets & equatorial nations, independent of the US market on which Cipher is now focused.

Exhibit 2. Valuation Summary for Cipher

Price/earnings multiple, F2027	5x	10x	15x	20x	25x	30x	35x
Implied share price [1,2]	$3.76	$7.52	$11.29	$15.05	$18.81	$22.57	$26.34
EV/EBITDA multiple, F2027	**5x**	**7x**	**9x**	**10x**	**11x**	**13x**	**15x**
Implied share price [1,2]	$6.58	$9.07	$11.56	$12.81	$14.05	$16.54	$19.03
One-year Cipher target price (US$)				$13.93			
One-year Cipher target price (C$) [3]				$19.39			

[1] *Based on F2027 adj EBITDA forecast of US$31.6M, F2027 adj fd EPS of US$0.75, basic S/O 25.4M; fd S/O 26.4M*

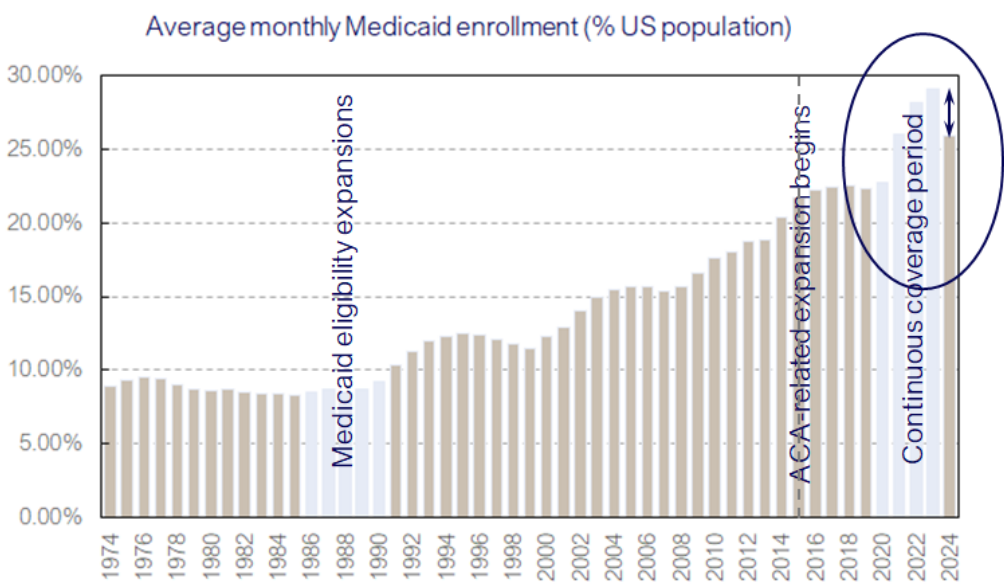
[2] *Based on 20x EPS, 10x EV/EBITDA (F2027); FQ226 cash of US$9.1M/C$12.7M & no LT debt*

[3] *PT in C$ assumes USD:CAD exchange rate of 1.38x*

Source: Leede Financial Inc.

On other Natroba sales drivers beyond comparative medical attractiveness to market-leading (for now) permethrin/Nix, we are squarely focused on timelines to receiving Health Canada approval for the drug, with NDS filing in Jan/26 putting the drug on pace to be reviewed during FQ127 if not sooner & for Natroba to be launched during FH127 by Cipher's Epuris sales team. As well, we are patiently waiting for Cipher to more aggressively seek out regional pharma partners for marketing Natroba in other geographies in Europe-Asia-Africa-Australia, from which we expect Cipher to receive a royalty on Natroba sales (our model assumes a modest 5%-to-10% royalty that we believe future partners will endorse). Though Cipher has been slow to announce its first Natroba out-licensing deal, we see no major impediments to consummating one or more international alliances in the next few quarters, particularly when considering the drug's mutation-refractory anti-microbial activity in comparison to permethrin.

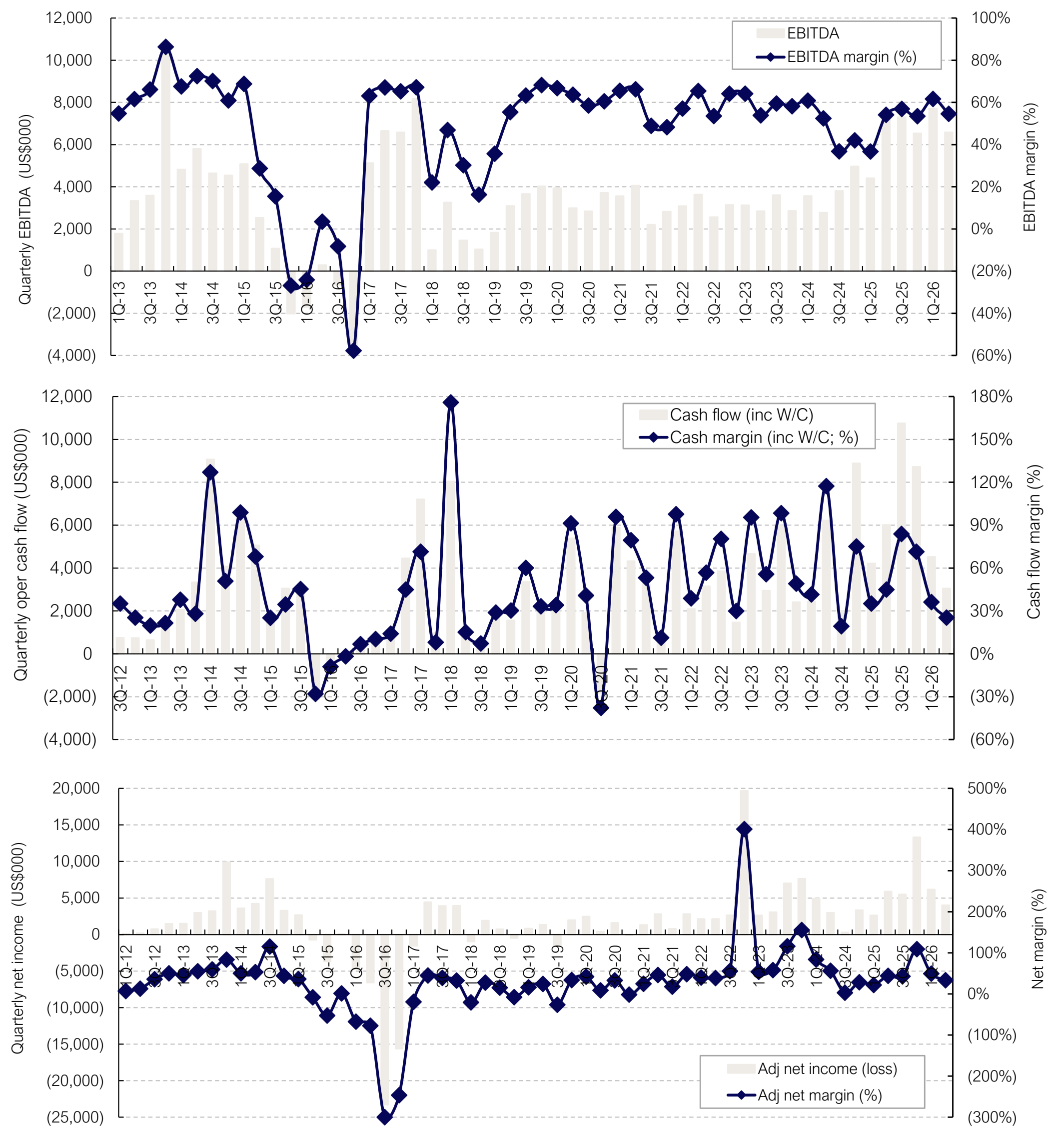
Exhibit 3. Annual Trends On Number Of US Patients Enrolled In Medicaid, 1974-to-2024



Source: Adapted from Center for Medicare & Medicaid Services; USAFacts.Org; Leede Financial

Canadian Epuris sales shine in the quarter, providing evidence for how US Absorica sales could recover in F2027 under Cipher's stewardship. More positively, we were encouraged to see that Cipher was able to grow Canadian market share for its once-daily super-bioavailable cystic acne-targeted isotretinoin formulation Epuris, achieving 47% market share (the other major isotretinoin brands in Canada are Roche's [ROG-SW, NR] Accutane & Mylan/Viatris' [VRTS-Q, NR] Clarus, although Cipher's US Absorica partner Sun Pharmaceuticals [SUN-NS, NR] does have Health Canada approval for Absorica LD in all of the dosage forms that it markets that drug in the US & was launched in Canada in Sept/23 according to Health Canada's Drug Products database). FQ226 Epuris sales were US$4.1M, above FQ126 sales of US$3.9M & above FQ225 sales of US$3.6M. Cipher recorded Epuris sales >US$4.1M in one other quarter (FQ125), with average quarterly Epuris sales since FQ126 of US$3.6M. The drug generated cumulative Canadian sales since launch in FQ213 of US$103.4M.

Exhibit 4. Historic Quarterly EBITDA, Cash Flow, Net Income & Margin Data for Cipher Pharmaceuticals, FQ113-FQ226

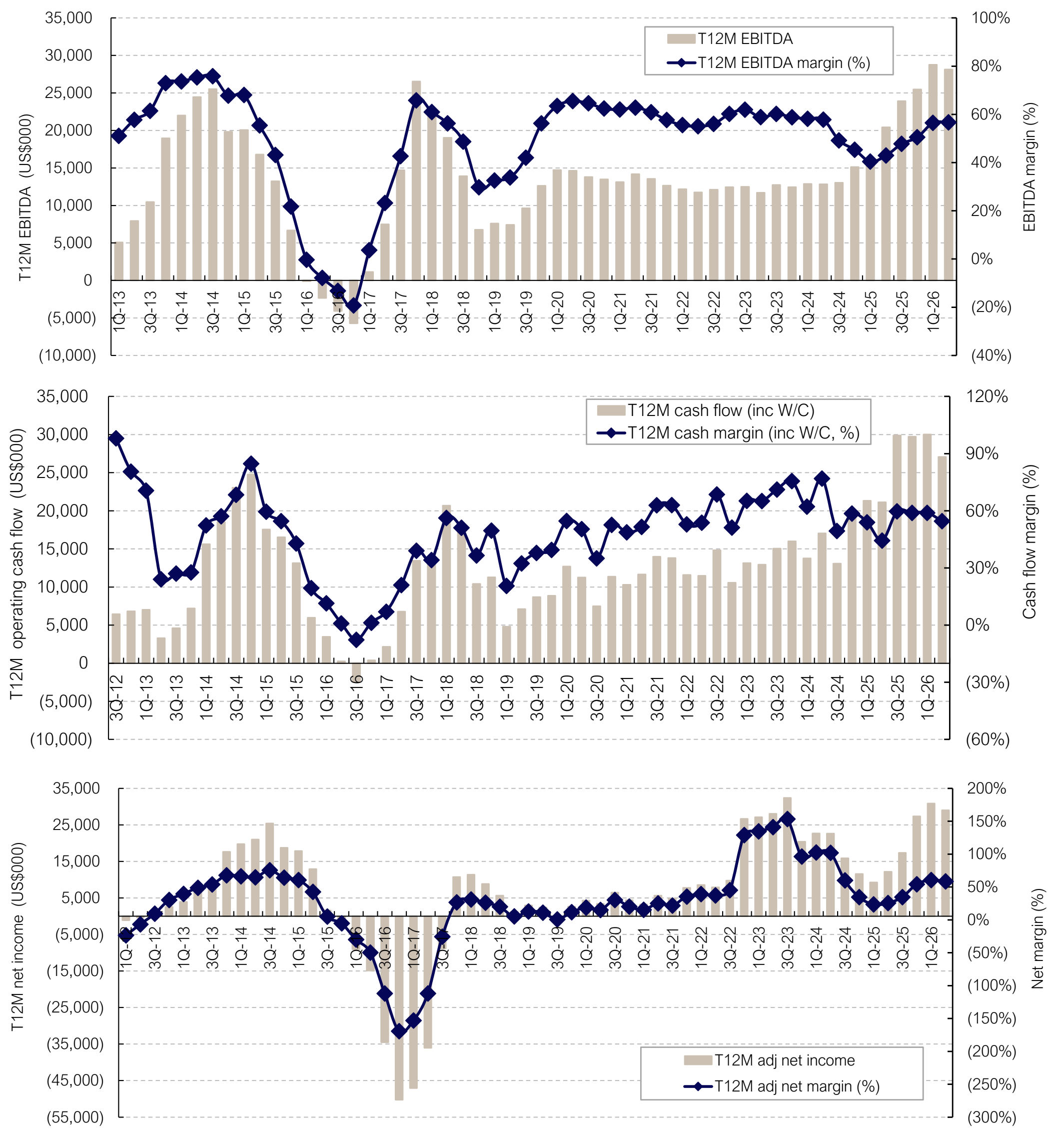


Source: Leede Financial, Cipher Pharmaceuticals financial filings

Sun Pharma's indifference to Absorica's medical prospects could be countered by Cipher acquiring independent marketing rights by end-of-year. As an aside, our attention shifts forward by two quarters to end-of-year when Cipher should re-acquire full US marketing rights for Absorica from its underperforming US marketing partner Sun Pharma (SUN-NS, NR), which in prior quarters was generating strong quarterly royalty revenue for Cipher (peaking at US$9.4M in FQ417 & at US$30.1M for full-year F2017) but which recently has been generating royalty revenue of US$0.5M-to-US$0.7M, with minimal fluctuation beyond that narrow range. There is absolutely no medical justification in our view for a super-bioavailable isotretinoin formulation to languish at royalty revenue levels that low when superior bioavailability (& the absence of a food effect that this bioavailability confers) that Absorica confers for this highly hydrophobic retinoid drug is well-documented to confer superior clinical outcomes/acne clearance as well. We expect Cipher to deploy its newly-acquired Natroba marketing team to the task of re-inventing Absorica's dermatology profile once US marketing rights have been attained in the next two quarters.

Other Rx therapies in Cipher's commercial portfolio merit minimal commentary in our view other than to acknowledge that stable if modest sales contribution was the theme in FQ226 as in most prior periods – royalty revenue for the firm's CIP-fenofibrate formulation Lipofen (sold by Kowa Pharmaceuticals [private]) was US$0.5M as it has been with minimal variability since FQ422, while cumulative sales for Cipher's non-Epuris Canadian Rx sales (mainly the cardiovascular disease-targeted drugs Brinavess/IV Vernakalant & Aggrastat/tirofiban, & the dermatology drugs Actikerall/5-fluorouracil-salicylic acid & Vaniqa/eflornithine) were also US$0.5M, a sales threshold at which quarterly performance has been similarly stable, surprisingly so in our view as our expectation would have been for Brinavess-Aggrastat-Actikerall-Vaniqa to either grow from that modest base or trend to nil over the F2022-present timeframe. We of course are quite familiar with Brinavess-Aggrastat through our legacy coverage of BC-based Correvio/Cardiome (ticker was CORV-T), from which Cipher acquired Correvio's Canadian Rx portfolio & its tax losses during FQ218.

Exhibit 5. Historic T12M EBITDA, Cash Flow, Net Income & Margin Data for Cipher Pharmaceuticals, FQ113-FQ226



Source: Leede Financial, Cipher Pharmaceuticals financial filings

Moberg's topical terbinafine formulation MOB-015/Terclara is still notionally in Cipher's pipeline & commercial success in non-US markets provides some support for filing in Canada in the medium-term. Shifting to pipeline that for now is just limited to Moberg Pharma's (MOB-ST, NR) nail fungus targeted topical terbinafine formulation MOB-015/Terclara & Can-Fite Pharma's (CANF-Q, NR) orally-active adenosine receptor agonist drug piclidenoson, the more attractive of these two Phase III-stage drug candidates in our view is piclidenoson, mostly because it has not yet encountered the Phase III setbacks that MOB-015 has (Moberg reported disappointing clinical cure rate data from a pivotal US-based Phase III nail fungus trial back in FQ324).

Exhibit 6. Comparable Companies for Cipher

Company	Filing Curr.	Sym.	Shrs Out. (M)	Share Price 12-Aug	Mkt Cap ($M)	Mkt Cap (C$M)	Ent. Value ($M)	Ent. Value (C$M)	EV/EBITDA (T12M)	EV/EBITDA (2026E)	EV/EBITDA (2027E)	Price/Earnings (T12M)	Price/Earnings (2026E)	Price/Earnings (2027E)
Profitable Canadian healthcare firms														
Apotex	CAD	APTX	228.5	$37.05	8,466	8,466	12,080	12,080	NA	NA	12.0x	NA	NA	18.4x
Aurinia Pharmaceuticals	USD	AUPH	133.1	$15.37	2,045	2,045	2,315	2,315	9.6x	NA	NA	6.4x	15.9x	12.8x
Bausch Health	USD	BHC	374.0	$6.24	2,334	3,249	30,981	43,138	5.6x	5.6x	5.9x	NA	1.4x	1.5x
BioSyent	CAD	RX	11.5	$15.00	173	173	167	167	12.9x	10.4x	8.9x	18.7x	16.9x	13.9x
CareRx	CAD	CRRX	63.5	$3.37	214	214	281	281	9.1x	8.1x	7.1x	7.9x	34.6x	14.0x
Chartwell REIT	CAD	CSH.R	328.3	$9.36	3,073	3,073	10,155	10,155	22.3x	19.9x	17.9x	NA	32.3x	22.8x
DRI Healthcare Trust	CAD	DHT.UN	55.0	$18.66	1,026	1,026	1,560	1,560	6.3x	6.6x	7.4x	NA	7.3x	8.0x
Extendicare REIT	CAD	EXE	95.0	$31.71	3,014	3,014	3,563	3,563	16.1x	14.1x	12.4x	23.9x	23.2x	20.9x
HLS Therapeutics	CAD	HLS	30.9	$3.83	118	118	162	162	NA	5.8x	5.0x	NA	NA	NA
Jamieson Wellness	CAD	JWEL	41.5	$45.75	1,898	1,898	2,359	2,359	14.3x	13.2x	11.8x	24.3x	21.3x	18.5x
K-Bro Linen	CAD	KBL	13.0	$46.50	605	605	901	901	7.8x	8.1x	7.8x	27.6x	22.8x	18.5x
Kneat.com	CAD	KSI	96.7	$6.50	628	628	604	604	NA	36.3x	23.3x	NA	NA	NA
Knight Therapeutics	CAD	GUD	98.2	$9.50	933	933	846	846	8.6x	10.1x	9.6x	NA	57.0x	38.6x
Medexus [1]	CAD	MDP	32.0	$3.81	122	122	199	199	8.3x	9.0x	6.3x	50.6x	NA	13.9x
Medical Facilities [1]	CAD	DR	16.2	$10.79	175	175	277	277	NA	3.3x	8.1x	18.3x	5.9x	14.2x
Microbix Biotech	CAD	MBX	137.2	$0.31	43	43	41	41	NA	NA	NA	NA	NA	NA
Vital Infrastructure	CAD	VITL.UN	250.0	$5.31	1,328	1,328	2,687	2,687	11.7x	12.9x	12.7x	NA	NA	NA
Savaria	CAD	SIS	72.1	$30.21	2,179	2,179	2,346	2,346	12.1x	11.4x	10.4x	24.7x	21.8x	19.3x
Sienna Senior Living	CAD	SIA	110.8	$21.91	2,427	2,427	3,627	3,627	21.7x	17.8x	15.7x	41.7x	40.6x	34.8x
Viemed	USD	VMD	38.1	$9.28	353	492	490	682	6.3x	5.3x	4.5x	24.5x	21.3x	15.0x
Vitalhub	CAD	VHI	63.4	$7.78	493	493	359	359	12.2x	10.5x	8.8x	NA	41.4x	22.9x
Well Health		WELL	255.5	$4.20	1,073	1,073	1,770	1,770	NA	9.5x	8.7x	NA	17.4x	12.9x
Average									11.6x	11.5x	10.1x	24.4x	23.8x	17.8x
Profitable specialty pharmaceutical firms														
AbbVie	USD	ABBV	1767.1	$250.09	441,938	615,355	704,836	981,413	16.1x	15.4x	13.6x	NA	17.8x	15.3x
Amgen	USD	AMGN	540.6	$414.30	223,984	311,875	372,160	518,196	15.0x	12.0x	11.9x	25.5x	18.0x	16.9x
Biogen	USD	BIIB	147.8	$203.89	30,126	41,947	51,419	71,596	11.8x	12.1x	10.1x	35.9x	16.4x	12.3x
Fresenius	EUR	FREG	563.2	€47.15	26,557	42,666	57,159	79,589	12.9x	12.5x	11.9x	16.9x	12.8x	12.0x
Cardinal Health	USD	CAH	234.2	$240.26	56,270	78,351	85,500	119,050	19.9x	20.7x	19.1x	33.0x	22.3x	19.5x
Dr. Reddy Labs	INR	500124	833.0	Rp1,199	Rp998,706	14,568	14,462	20,137	24.4x	17.9x	21.9x	31.0x	19.6x	27.7x
Gilead Sciences	USD	GILD	1240.0	$135.77	168,349	234,409	266,391	370,923	18.0x	NA	15.4x	NA	NA	13.6x
Jazz Pharmaceuticals	USD	JAZZ	64.9	$247.98	16,098	22,414	25,408	35,378	15.5x	10.8x	10.4x	16.3x	10.3x	9.6x
Neurocrine Biosciences	USD	NBIX	101.6	$161.94	16,461	22,920	22,376	31,156	25.7x	22.3x	15.8x	23.0x	22.9x	15.9x
Perrigo	USD	PRGO	138.8	$12.85	1,783	2,483	6,514	9,070	10.2x	9.9x	8.8x	NA	5.9x	5.4x
Sun Pharma/Ranbaxy [2]	INR	524715	2399.3	Rp1,935	Rp4,642,713	67,723	63,879	88,945	35.5x	36.2x	32.5x	39.3x	38.4x	35.6x
Teva Pharmaceuticals [3]	USD	TEVA	1165.3	$36.48	42,510	59,191	77,448	107,838	17.2x	17.9x	13.7x	58.8x	18.3x	11.9x
United Therapeutics	USD	UTHR	42.9	$515.50	22,110	30,786	27,077	37,702	17.8x	17.7x	16.2x	17.0x	19.0x	16.7x
Vertex Pharmaceuticals	USD	VRTX	253.5	$529.65	134,246	186,924	175,977	245,031	33.6x	30.9x	26.9x	30.6x	28.1x	24.9x
Viatris	USD	VTRS	1148.6	$16.28	18,699	26,037	42,662	59,403	10.7x	9.7x	9.4x	NA	6.5x	6.1x
Average									19.0x	17.6x	15.8x	29.8x	18.3x	16.2x
Cipher Pharma [1]		CPH	25.4	$10.41	265	369	256	356	NA	11.8x	10.1x	9.7x	12.2x	10.5x

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

[2] *Cipher's US Absorica marketing partner* [3] *Generic Absorica competitor (since April-21)*

Source: Leede Financial, Consensus Data - Refinitiv

That said, MOB-015/Terclara is actually performing well in non-US geographies where it is already approved & Moberg just signed a new licensing agreement in China in Jun/26 with Karo Healthcare AB, the regional firm that already markets MOB-015/Terclara for Moberg in several European & Asia-Pacific medical markets already. The mycological cure rate for MOB-015 in pivotal Phase III testing supporting RoW approvals was 76% & that threshold may be sufficient to receive Health Canada approval if Cipher ever chooses to file Moberg's existing Phase III documentation with local regulators. MOB-015/Terclara has 31% Rx market share in Sweden & 24% Rx market share in Norway in the nail fungus treatment market in those nations, but absolute sales levels in the March-end quarter were still modest at SEK4.9M. Moberg is holding firm in its belief that MOB-015/Terclara's glocal market potential is US$250M-to-US$500M, a projection that we have not ourselves independently derived.

Competitive landscape in the Canadian nail fungus market would still require consideration, with Bausch Health's (BHC-NY, NR) efinaconazole/Jublia still enjoying dominant market share, albeit with limited alternative therapies other than terbinafine in its multiple orally-active widely-genericized form (it was originally launched by Novartis [NVS-NY, NR] as Lamisil). Cipher still holds Canadian marketing rights for MOB-015 & RoW commercial success for the drug certainly makes its entry into Cipher's Canadian Rx portfolio a feasible proposition, if an unlikely one when considering MOB-015's recent clinical history. Our investment thesis does not assume any upside from MOB-015 commercialization, but we acknowledge that the impediments to a Health Canada NDS filing are more strategic than medically justified (the active agent in MOB-015, terbinafine, is of course already approved in multiple forms).

Can-Fite's piclidenoson advances well in ongoing Phase III plaque psoriasis trial, with already-published Phase III data supporting eventual medical prospects for this orally-active alternative to injectible interleukin-targeted drugs. But shifting to piclidenoson, Can-Fite continues to fund a 705-patient Phase III plaque psoriasis trial for which four-month PASI75 data could be available by mid-F2027 & one-year PASI75 data could thus be available by mid-F2028. As we have noted many times in our recent Cipher-specific reports, piclidenoson already performed well in a published Phase III plaque psoriasis trial (the 426-patient COMFORT-1 trial, as published in Jun/24 in the *Journal of the European Academy of Dermatology & Venereology*), not only performing well on the aforementioned PASI75 scale in comparison to placebo at four-month follow-up but also as compared to an alternative orally-active drug, Amgen's (AMGN-Q, NR) phosphodiesterase 4 inhibitor apremilast/Otezla.

It seems likely to us that capital markets will remain focused on Natroba sales data (& the EBITDA/net income that it generates) as a key near-term driver of CPH share value, but we are encouraged by the multiplicity of revenue drivers that Cipher still has in play that could drive profitability in coming quarters. The plaque psoriasis market is of course well-populated with interleukin-targeted immunologically-active therapies including but not limited to J&J's (JNJ-NY, NR) interleukin-23-targeted ustekinumab/ Stelara, but effective orally-active medications will always in our view have a place in the pharmacopeia of any medical market, plaque psoriasis included & Amgen's commercial success with Otezla (FQ226 sales US$491M) is evidence of that trend.

Summary & valuation. We are maintaining our Buy rating on CPH while introducing a slightly lower PT of C$19.50 on the stock, corresponding to a one-year return from current price levels (mid-afternoon) of 34.5%. We believe that the multiplicity of Natroba revenue growth drivers, Medicaid patient reduction notwithstanding, in combination with imminent upside from a US Absorica resurrection & downstream upside from Canadian marketing rights for Can-Fite's Phase III-stage plaque psoriasis drug piclidenoson should collectively support our near-term EBITDA/EPS expectations on which our valuation is based. We expect Cipher to aggressively explore new product in-licensing opportunities to leverage the North American marketing infrastructure it has in place that at present is only driving sales of two flagship products in Natroba & Epuris. Periodic recognition of tax losses acquired from the aforementioned Correvio transaction should augment net income in many forthcoming quarters & support share value in lockstep.

Disclosures None

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Speculative Buy	The security is considered a BUY but carries an above-average level of risk.
Hold	The security represents fair value and no material appreciation is expected over the next 12-month time horizon.
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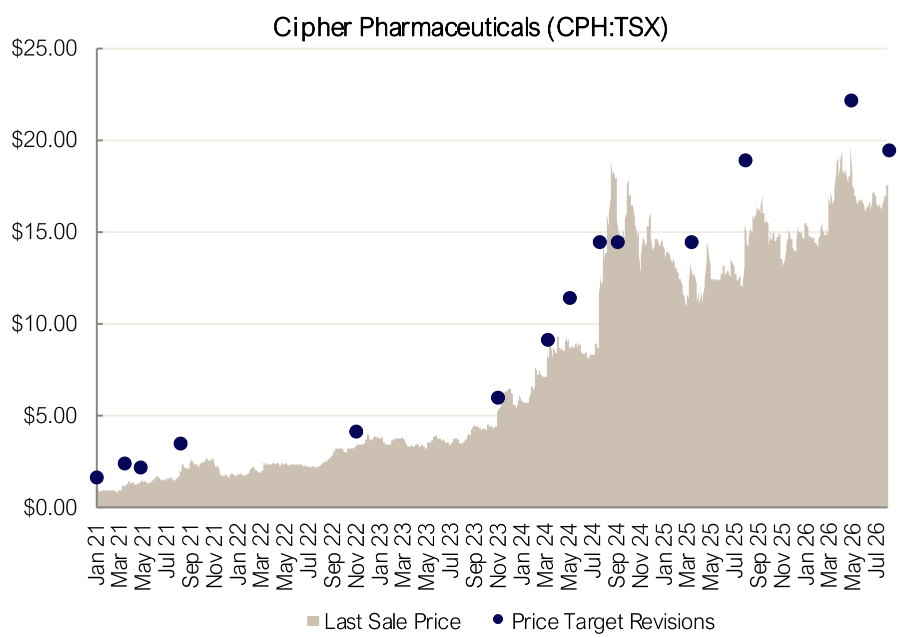
Rating Distribution

RECOMMENDATION	NO. OF COMPANIES	%
Buy	9	60%
Speculative Buy	4	26%
Hold	1	7%
Sell	-	-
Tender	-	-
Under Review	1	7%

Historical Target Price



Date	Target ($)	Rating
11 Jan 2021	C$1.75	Buy
22 Mar 2021	C$2.50	Buy
30 Apr 2021	C$2.25	Buy
13 Aug 2021	C$3.50	Buy
11 Nov 2022	C$4.25	Buy
10 Nov 2023	C$6.00	Buy
15 Mar 2024	C$9.25	Buy
10 May 2024	C$11.50	Buy
29 Jul 2024	C$14.50	Buy
13 Sep 2024	C$14.50	Hold
19 Mar 2025	C$14.50	Buy
8 Aug 2025	C$19.00	Buy
8 May 2026	C$22.25	Buy
12 Aug 2026	C$19.50	Buy

Coverage Initiated: Jan 11, 2021 *Data sourced from: Refinitiv*