

Cipher Pharmaceuticals Reports Q1 2018 Results

Company announces four transactions year to date adding revenue diversification and growth avenues in new therapeutic categories

MISSISSAUGA, ON, May 10, 2018 /CNW/ - Cipher Pharmaceuticals Inc. (TSX:CPH) ("Cipher" or "the Company") today announced its financial and operational results for the three months ended March 31, 2018. Unless otherwise noted, all figures are in U.S. dollars.

Q1 2018 Financial Highlights

(all figures compared to Q1 2017, unless otherwise noted)

- Total net revenue decreased to \$4.6 million from \$8.1 million.
 - Licensing revenue decreased to \$2.8 million compared with \$6.9 million.
 - Product revenue increased to \$1.8 million, up 45% from \$1.3 million.
- Loss from continuing operations of \$1.0 million, or \$0.04 per basic and diluted share, compared with loss from continuing operations of \$1.6 million, or \$0.06 per basic and diluted share.
- Adjusted EBITDA¹ of \$1.0 million, compared with \$5.1 million.
- \$28.0 million in cash at March 31, 2018, compared with \$28.2 million at the end of 2017.

Q1 2018 Financial Review

(All figures are in U.S. dollars)

Total revenue was \$4.6 million for Q1 2018, compared to \$8.1 million for Q1 2017.

Licensing revenue for Q1 2018 was \$2.8 million, compared to \$6.9 million for Q1 2017. Absorica[®] licensing revenue decreased to \$2.1 million for Q1 2018, compared with \$5.6 million for Q1 2017. Following changes to Cipher's partner's promotional program at the end of November 2017, market share and prescriptions for Absorica decreased as expected in December 2017 and Q1 2018. Absorica's market share, which peaked at 22% during 2017, ended March 2018 at approximately 12%², similar to the market share levels experienced prior to the promotional campaign. In addition to the impact of reduced prescriptions in Q1 2018, royalty revenue from Absorica was affected by a reduction in shipments from Cipher's partner to their distributors as inventory levels were adjusted to reflect the previously mentioned decrease in demand.

Licensing revenue from Lipofen[®] and the authorized generic version of Lipofen decreased as expected to \$0.5 million for Q1 2018, compared with \$1.2 million in Q1 2017. Licensing revenue from tramadol products (Conzip[®] and Durela[®]) was unchanged year over year at \$0.1 million.

Product revenue increased by 45% to \$1.8 million for Q1 2018, compared to \$1.3 million for Q1 2017. The increase was primarily driven by Epuris[®], which generated revenue of \$1.4 million in the period, compared to \$1.1 million in Q1 2017. Epuris achieved market share of more than 31%² during the quarter, compared with 26% for the same period last year.

Total operating expenses increased to \$5.8 million for Q1 2018, compared to \$3.5 million for Q1 2017, primarily due to a \$1.8 million non-cash impairment charge for Dermadexin and Pruridexin, as well as costs incurred in executing four transactions in the period.

Loss from continuing operations was \$1.0 million, or \$0.04 per basic and diluted share, in Q1 2018, compared with loss from continuing operations of \$1.6 million, or \$0.06 per basic and diluted share, in Q1 2017. Adjusted EBITDA¹ for Q1 2018 decreased to \$1.0 million, compared to \$5.1 million in Q1 2017. The decrease in Adjusted EBITDA is due mainly to lower total revenue in Q1 2018.

"As previously disclosed, our Q1 results were affected by a decrease in licensing revenue from Absorica, reflecting lower prescription and shipment levels in the quarter following the completion of our partner's promotional campaign in November 2017," said Robert Tessarolo, President and CEO of Cipher. "Absorica prescriptions have stabilized and market share has leveled off to approximately pre-promotion levels."

Mr. Tessarolo added: "A major highlight of the first quarter was the 45% revenue growth from our Canadian commercial business. We have several catalysts in our current portfolio to support this continued organic growth, led by Epuris, Actikerall and the recently launched OZANEX[™], and we are adding to our portfolio through business development. We are focused on achieving the key milestones from these transactions, while continuing our investment in business development, which has proved highly productive to date."

Outlook

Cipher is executing a three-pronged growth strategy to deliver reliable growth to shareholders. The Company is particularly focused on building its Canadian commercial business, which has generated significant organic growth over the past several years. Cipher is experiencing continued growth in its key brands and expects to add six new products from its existing pipeline to its Canadian commercial portfolio in 2018 and 2019. Management continues to pursue new in-licensing opportunities and acquisitions to further expand its near-term product pipeline.

The Company expects its global licensing business to provide a solid base of high-margin royalty revenue in 2018, which provides non-dilutive financing to support the growth of its Canadian commercial platform.

Corporate Developments

In 2017, Cipher introduced a revised corporate strategy to build a portfolio of prescription products across a broad range of therapeutic areas that meet an unmet medical need. For the fiscal year to date, Cipher has launched one new product in Canada and announced four transactions that demonstrate meaningful progress in the execution of its growth strategy to assemble a diversified portfolio of prescription products that will deliver reliable growth for shareholders.

Key highlights include:

- In January 2018, Cipher launched OZANEX™, a novel bactericidal topical antibiotic cream indicated for impetigo in patients aged 2 months and older. The early response from Health Care Professionals has been encouraging, and Cipher has already achieved extensive coverage on private healthcare plans.
- In February 2018, Cipher acquired the exclusive Canadian rights from Synergy Pharmaceuticals Inc. to TRULANCE®, an FDA-approved once-daily tablet for adults with chronic idiopathic constipation and irritable bowel syndrome with constipation. Cipher expects to file a New Drug Submission (NDS) with Health Canada in the second half of 2018.
- In March 2018, Cipher announced a definitive arrangement agreement to acquire the Canadian business portfolio of Cardiome Pharma Corp., which includes two commercial products (Brinavess® and Aggrastat®) and two late-stage pipeline products (Xydalba™ and Trevyent®) used in the hospital vertical. Cardiome's shareholders approved the transaction at a shareholder meeting on May 9, 2018, and the companies expect this acquisition to close in Q2 2018.
- In April 2018, Cipher acquired the exclusive Canadian rights to A-101 40%, a topical solution indicated for the treatment of raised seborrheic keratoses. A-101 40% was approved by the FDA in December 2017 and will be marketed by Aclaris Therapeutics, Inc. in the U.S. under the tradename Eskata™. Cipher plans to file its NDS with Health Canada in the second half of 2018.

Financial Statements and MD&A

Cipher's Financial Statements and Management's Discussion and Analysis ("MD&A") for the three months ended March 31, 2018 are available on the Company's website at www.cipherpharma.com in the "Investors" section under "Quarterly Reports" and on SEDAR at www.sedar.com.

Notice of Conference Call

Cipher will hold a conference call today, May 10, 2018, at 8:30 a.m. (ET) to discuss its financial results and other corporate developments. To access the conference call by telephone, dial 647-427-7450 or 1-888-231-8191. A live audio webcast will be available at <https://bit.ly/2r3HMID> or the Investor Relations section of the Company's website at <http://www.cipherpharma.com>. An archived replay of the webcast will be available for 90 days.

About Cipher Pharmaceuticals Inc.

Cipher (TSX:CPH) is a specialty pharmaceutical company with a robust and diversified portfolio of commercial and early to late-stage products. Cipher acquires products that fulfill unmet medical needs, manages the required clinical development and regulatory approval process, and markets those products either directly in Canada or indirectly through partners in Canada, the U.S., and South America. Cipher is focused on a three-pronged growth strategy – including acquisitions, in-licensing, and selective investments in drug development – to assemble a broad portfolio of prescription products that serve unmet medical needs. For more information, visit www.cipherpharma.com.

Forward-Looking Statements

This document includes forward-looking statements within the meaning of certain securities laws, including the "safe harbour" provisions of the Securities Act (Ontario) and other provincial securities law in Canada and U.S. securities laws. These forward-looking statements include, among others, statements with respect to our objectives, goals and strategies to achieve those objectives and goals, as well as statements with respect to our beliefs, plans, expectations, anticipations, estimates and intentions and statements relating to the proposed arrangement with Cardiome Pharma Corp. ("Cardiome") pursuant to which Cipher will acquire the Canadian business portfolio of Cardiome, including statements in respect of the anticipated strategic and/or financial benefits of the arrangement, anticipated regulatory approvals or products and the timing thereof, the ability of the parties to satisfy the closing conditions of the arrangement, the anticipated funding for the transaction, the receipt of necessary regulatory and third party approvals and the anticipated timing of completion of the arrangement. The words "may", "will", "could", "should", "would", "suspect", "outlook", "believe", "plan", "anticipate", "estimate", "expect", "intend", "forecast", "objective", "hope" and "continue" (or the negative thereof), and words and expressions of similar import, are intended to identify forward-looking statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, which give rise to the possibility that predictions, forecasts, projections and other forward-looking statements will not be achieved. Certain material factors or assumptions are applied in making forward-looking statements and actual results may differ materially from those expressed or implied in such statements. We caution readers not to place undue reliance on these statements as a number of important factors, many of which are beyond our control, could cause our actual results to differ materially from the beliefs, plans, objectives, expectations, anticipations, estimates and intentions expressed in such forward-looking statements. These factors include, but are not limited to, our ability to enter into in-licensing, development, manufacturing and marketing and distribution agreements with other pharmaceutical companies and keep such agreements in effect; our dependency on a limited number of products; integration difficulties and other risks if we acquire or in-license technologies or product candidates; reliance on third parties for the marketing of certain products; the product approval process is highly unpredictable; the timing of completion of clinical trials, regulatory submissions and regulatory approvals; reliance on third parties to manufacture our products and events outside of our control that could adversely

impact the ability of our manufacturing partners to supply products to meet our demands; we may be subject to future product liability claims; unexpected product safety or efficacy concerns may arise; we generate license revenue from a limited number of distribution and supply agreements; the pharmaceutical industry is highly competitive; requirements for additional capital to fund future operations; dependence on key managerial personnel and external collaborators; no assurance that we will receive regulatory approvals in the U.S., Canada or any other jurisdictions; current uncertainty surrounding health care regulation in the United States; certain of our products are subject to regulation as controlled substances; limitations on reimbursement in the healthcare industry; limited reimbursement for products by government authorities and third-party payor policies; various laws pertaining to health care fraud and abuse; reliance on the success of strategic investments and partnerships; the publication of negative results of clinical trials; unpredictable development goals and projected time frames; rising insurance costs; ability to enforce covenants not to compete; risks associated with the industry in which it operates; we may be unsuccessful in evaluating material risks involved in completed and future acquisitions; we may be unable to identify, acquire or integrate acquisition targets successfully; inability to meet covenants under our long term debt arrangement; compliance with privacy and security regulation; our policies regarding returns, allowances and chargebacks may reduce revenues; certain current and future regulations could restrict our activities; additional regulatory burden and controls over financial reporting; reliance on third parties to perform certain services; general commercial litigation, class actions, other litigation claims and regulatory actions; the effects of our delisting from the NASDAQ Global Market (the "NASDAQ") and deregistration of our Common Shares under the U.S. Securities Exchange Act of 1934, as amended (the "U.S. Exchange Act"); the difficulty for shareholders to realize in the United States upon judgments of U.S. courts predicated upon civil liability of the Company and its directors and officers who are not residents of the United States; certain adverse tax rules applicable to U.S. holders of our Common Shares if we are a passive foreign investment company for U.S. federal income tax purposes; the potential violation of intellectual property rights of third parties; our efforts to obtain, protect or enforce our patents and other intellectual property rights related to our products; changes in U.S., Canadian or foreign patent laws; litigation in the pharmaceutical industry concerning the manufacture and supply of novel and generic versions of existing drugs; inability to protect our trademarks from infringement; shareholders may be further diluted if we issue securities to raise capital; volatility of our share price; the actions of a significant shareholder; we do not currently intend to pay dividends; our operating results may fluctuate significantly; our debt obligations will have priority over the Common Shares in the event of a liquidation, dissolution or winding up; and risks associated with the arrangement with Cardiome, including, among others, the failure to satisfy closing conditions and the absence of material adverse changes or other events which may give the parties a basis on which to terminate the arrangement agreement.

We caution that the foregoing list of important factors that may affect future results is not exhaustive. When reviewing our forward-looking statements, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. Additional information about factors that may cause actual results to differ materially from expectations, and about material factors or assumptions applied in making forward-looking statements, may be found in the "Risk Factors" section of our Annual Information Form and in our Management's Discussion and Analysis of Operating Results and Financial Position for the year ended December 31, 2017, and elsewhere in our filings with Canadian securities regulators. Except as required by Canadian securities law, we do not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time by us or on our behalf; such statements speak only as of the date made. The forward-looking statements included herein are expressly qualified in their entirety by this cautionary language.

- 1) EBITDA is a non-IFRS financial measure. The term EBITDA (earnings before interest, taxes, depreciation and amortization,) does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement IFRS measures by providing a further understanding of operations from management's perspective. The Company defines Adjusted EBITDA as earnings before interest expense, income taxes, depreciation of property and equipment, amortization of intangible assets, loss on debt extinguishment, non-cash share-based compensation, changes in fair value of derivative financial instruments, impairment of intangible assets and goodwill and foreign exchange gains and losses from the translation of Canadian cash balances.
- 2) Source: QuintilesIMS

The following is a summary of how EBITDA and Adjusted EBITDA are calculated:

(IN THOUSANDS OF U.S. DOLLARS)	Three months ended March 31, 2018	Three months ended March 31, 2017
	\$	\$
Loss from continuing operations	(951)	Restated (1,592)
Add back:		
Depreciation and amortization	226	242
Interest expense, net	130	1,421
Income taxes	(141)	(281)
EBITDA	(736)	(210)
Change in fair value of derivative financial instrument	(321)	(98)
Loss from the translation of Canadian cash balances	41	9
Loss of debt extinguishment	-	5,223
Impairment of intangible assets	1,832	-
Share-based compensation	156	209
Adjusted EBITDA	972	5,133

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