Cipher Pharmaceuticals Reports Third Quarter 2020 Financial Results

Revenue Increases Sequentially to $4.9 million
EBITDA[2] was $2.7 million or 55% of net revenue

OAKVILLE, ON, Nov. 12, 2020 /CNW/ - Cipher Pharmaceuticals Inc. (TSX: CPH) ("**Cipher**" or "**the Company**") today announced its financial and operating results for the three and nine months ended September 30, 2020. Unless otherwise noted, all figures are in U.S. dollars.

Q3 2020 Financial Highlights
(All figures in U.S. dollars, compared to Q3 2019 unless otherwise noted)

- Total revenue was $4.9 million compared to $5.8 million
- Total operating expenses excluding impairment of intangible assets decreased 18% to $2.5 million
- Net Income increased to $1.6 million compared to a loss of $2.1 million
- EBITDA[2] was $2.7 million or 55% of net revenue compared to a loss of $0.4 million
- EPS was $0.06 (CDN$0.08) compared to a loss of $0.08

Management Commentary

"The COVID-19 pandemic continued to impact the economy during the third quarter of 2020. Cipher is navigating through this environment while executing on business improvements and cost reductions. Cipher demonstrated strong profitability during the third quarter and sequential growth in revenue despite market conditions that have not fully normalized. Our focus continues to be on driving profitability, strengthening the balance sheet and looking for the right opportunities for growth," said Mr. Craig Mull, Interim CEO.

"Epuris continued to perform well in the quarter, revenue was $1.8 million compared to $1.9 million in the third quarter of 2019. Epuris finished the quarter with a 41% market share in the Canadian market, up from 40% in the comparative period. Licensing revenue for Absorica was $2.3 million, a decrease of $0.3 million compared to Q3 2019. Absorica's market share for the three months ended September 30, 2020 was approximately 6% compared to approximately 8% for the three months ended September 30, 2019, according to Symphony. Market share including Sun's Absorica LD was approximately 7%."

"Third quarter results show sequential growth in revenue and strong year over year growth in earnings. Starting in Q4, we will be ramping up our strategic promotional efforts to drive market share on our core brands. Excluding an impairment charge total operating costs decreased 18% in the third quarter over last year. This optimized cost structure resulted in EBITDA increasing to $2.7 million or 55% of net revenue compared to a loss of $0.4 million last year. Our focus for the rest of the year will be on continuing strategic promotional marketing efforts in the Canadian market."

Management Update on Pipeline projects

Tattoo program ("DTR001") – "In our tattoo program ("DTR001"), the US patent office issued a Notice of Allowance for the US patent application covering Tattoo dermal compositions (topical, transdermal and intradermal). We have received encouraging results from the proof of concept studies and identified a lead candidate compound. Planning is currently underway for the next focused preclinical animal study that will incorporate test parameters that could potentially broaden and reinforce the existing IP portfolio." said Mr. Craig Mull, Interim CEO.

MOB-015 ("Nail fungus") – "Our development partner, Moberg, has developed a proprietary formulation that can deliver a higher concentration of active drug to the nail bed than competing products on the market. To date, Moberg has conducted two Phase III studies for MOB-015 that have met the primary endpoint. Although the overall cure rates were low, there was a significant antifungal effect, as demonstrated in the secondary endpoints of the studies where the mycological cure was achieved in 84% of patients, which is unprecedented for a topical treatment and even higher than reported for oral treatments. Cipher is continuing discussions with Moberg on next steps."

Alitretinoin – "We also continue to work with our development partner, Galephar, on a number of interesting projects including Alitretinoin, a drug for severe hand eczema, for the U.S. market. Cipher and Galephar are working closely and expect to receive feedback from a recent clinical protocol submission to the FDA. Cipher continues to evaluate the market potential for this product."

Q3 2020 Financial Review

(All figures are in U.S. dollars)

Total revenue was $4.9 million for Q3 2020, compared to $5.8 million for the prior year. The main driver for the $1.0 million decrease in revenue was a decrease in Licensing revenue.

Licensing revenue was $2.9 million for the three months ended September 30, 2020, compared to $3.6 million for the three months ended September 30, 2019. Licensing revenue from Absorica in the U.S. was $2.3 million, up sequentially from $1.8 million but down from $2.6 million for the three months ended September 30, 2019. Absorica ended the quarter with a 6.0% market share, or 7% including Sun's Absorica LD.

Product revenue was $2.0 million for Q3 2020, compared to $2.2 million in Q3 2019. Product revenue from Epuris was $1.8 million during the quarter compared to $1.9 million the prior period. According to Symphony, Epuris had a prescription market share of approximately 41% in Canada for the three months ended June 30, 2020, compared to 40% for the three months ended September 30, 2019.

Total operating expenses decreased 61% to $2.5 million for Q3 2020 compared to $6.5 million for Q3 2019. The decrease was primarily driven by a decrease in impairment of intangible assets and restructuring costs. Excluding an impairment charge total operating costs decreased 18% in the third quarter over last year.

SG&A expense was $1.6 million for Q3 2020, an increase of $0.4 million compared to the prior period. The increase in SG&A was primarily driven by an increase in costs related to legal and consulting spend.

Net income was $1.6 million, or $0.06 per basic and diluted share (CDN$0.08) in Q3 2020, compared to a loss of $2.1 million, or a loss of $0.08 per basic and diluted share, in Q3 2019. EBITDA was $2.7 million or 55% of net revenue for the quarter, compared to a loss of $0.4 million in Q3 2020. Adjusted EBITDA for Q3 2020 was $2.8 million or 58% of net revenue, compared to $3.7 million in Q3 2019.

The Company generated $5.5 million in cash from operating activities during the nine-month period ended September 30, 2020. As of September 30, 2020, the Company had cash of $4.7 million and $1.7 million drawn on the credit facility. The Company's credit facility has been paid off as at October 30, 2020.

Update on normal course issuer bid ("NCIB") program

As announced in the August 12, 2020 press release, Cipher has purchased for cancellation 30,000 common shares during the quarter ended September 30, 2020 under the NCIB program.

Financial Statements and MD&A

Cipher's Financial Statements for the third quarter ended September 30, 2020, and Management's Discussion and Analysis (the "**MD&A**") for the three and nine months ended September 30, 2020, are available on the Company's website at www.cipherpharma.com in the "Investors" section under "Financial Reports" and on SEDAR at www.sedar.com.

Notice of Conference Call

Cipher will hold a conference call on November 13, 2020, at 8:30 a.m. (ET) to discuss its financial results and other corporate developments.

- To access the conference call by telephone, dial (416) 764-8688 or (888) 390-0546 and use conference ID 46246305.
- A live audio webcast will be available at https://produceredition.webcasts.com/starthere.jsp?ei=1397006&tp_key=a8d3b9b5c2 or the Investor Relations section of the Company's website at http://www.cipherpharma.com.
- Webcast playback will be available until November 20, 2020.

About Cipher Pharmaceuticals Inc.

Cipher Pharmaceuticals (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 currently markets those products either directly in Canada or indirectly through partners in Canada, the U.S., and South America. For more information, visit www.cipherpharma.com.

Forward-Looking Statements

This document includes forward-looking statements within the meaning of applicable securities laws. These forward-looking statements include, among others, statements with respect to our objectives and 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 Special Committee's review of the strategic direction of the Company and its strategic priorities including the anticipated benefits thereof. 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, the extent and impact of the coronavirus (COVID-19) outbreak on our business including any impact on our contract manufacturers and other third party service providers, our ability to enter into 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; our dependency on protection from patents that will expire; 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; products in Canada may be subject to pricing regulation; 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 and current uncertainty surrounding health care regulation in the U.S.; 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; products may not be included on list of drugs approved for use in hospitals; hospital customers may make late payments or not make any payments; 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 we operate; 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; legacy risks from operations conducted in the U.S.; 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 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; 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 fact that we have a significant shareholder; we do not currently intend to pay dividends; our operating results may fluctuate significantly; and our debt obligations will have priority over the common shares of the Company in the event of a liquidation, dissolution or winding up.

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 this MD&A and the Annual Information Form for the year ended December 31, 2019, 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) At the Q3 2020 average exchange rate

2) 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, restructuring costs, 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.

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

(IN THOUSANDS OF U.S. DOLLARS)	**Three months ended September 30, 2020**	Three months ended September 30, 2019	**Nine months ended September 30, 2020**	Nine months ended September 30, 2019
	$	$	**$**	**$**
Income (loss) from continuing operations	**1,603**	(2,182)	**4,486**	(7)
Add back:				
Depreciation and amortization	**306**	289	**907**	898
Interest expense, net	**95**	190	**278**	633
Income taxes	**670**	1,268	**3,855**	2,169
EBITDA	**2,674**	(435)	**9,526**	3,693
EBITDA as % of Net revenue	**55%**	(7%)	**62%**	22%
Change in fair value of derivative financial instrument	**(12)**	1	**4**	(14)
Restructuring costs	**147**	794	**147**	1,454
Loss (gain) from the translation of Canadian cash balances	**(27)**	20	**(11)**	36
Impairment of intangible assets	**—**	3,454	**—**	3,454
Share-based compensation	**50**	(163)	**140**	(94)
Adjusted EBITDA	**2,832**	3,671	**9,806**	8,529
Adjusted EBITDA as % of Net revenue	**58%**	63%	**63%**	52%

SOURCE Cipher Pharmaceuticals Inc.

View original content: http://www.newswire.ca/en/releases/archive/November2020/12/c1119.html

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