



Cipher Pharmaceuticals Inc.

Fourth Quarter & Full Year 2023 Results Conference Call

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Stifel — Analyst

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PRESENTATION

Operator

Good morning, ladies and gentlemen. Thank you for standing by. Welcome to the Cipher Pharmaceuticals Fourth Quarter and Full Year 2023 Results Conference Call. At this time, all participants are in a listen-only mode. Following today's presentation, instructions will be given for the question-and-answer session. If anyone needs assistance at any time during the call, you may press the star followed by the zero on your touchtone phone. As a reminder, this conference is being recorded today, Friday, March 15, 2024.

On behalf of the speakers that follow, listeners are cautioned that today's presentation and the responses to questions may contain forward-looking statements within the meaning of the safe harbour provisions of the Canadian provincial securities laws. Forward-looking statements involve risks and uncertainties and undue reliance should not be placed on such statements. Certain material factors or assumptions are implied in making forward-looking statements and actual results may differ materially from those expressed or implied in such statements. For additional information about factors that could cause results to vary, please refer to the risks identified in the Company's annual information form and other filings with Canadian regulatory authorities. Except as required by Canadian securities laws, the Company does not undertake to update any forward-looking statements. Such statements speak only as of the date made.

I would now like to turn the call over to Mr. Craig Mull, Interim Chief Executive Officer of the Company. Please go ahead.

Craig Mull — Interim Chief Executive Officer, Cipher Pharmaceuticals Inc.

Good morning, everyone, and thanks for joining us today. On today's call, I will give a brief update on Cipher's product pipeline and growth plans before I turn it over to our CFO, Bryan Jacobs, to walk you through the key financial metrics of 2023.

In 2023, Cipher's results demonstrate that the Company's base business remains on solid footing and we view this strong foundation as a platform for future growth. When I took on the role of CEO back in 2019, my initial goal was to refocus the business towards cash generation and profitability. Today, I'm proud to say that the entire Cipher team has executed this vision, which is clearly demonstrated by our 2023 results. With a strong balance sheet, substantial liquidity, and predictable cash-generating base business, Cipher is now moving into a phase of growth, driven by both new products and strategic M&A. I will begin with a brief update on our product pipeline before giving a high-level description of how we plan to accelerate growth by making strategic and opportunistic acquisitions.

Cipher, through its in-licensing partnership with Moberg Pharma, is less than one year away from key Phase 3 data for MOB-015. To remind listeners, MOB-015, we believe, will be a very significant impactful product for the Company. Current nail fungus therapies are inadequate as complete cure rates are well below 50% and treatment protocols are tedious, inconvenient, and more importantly, ineffective. To date, the data surrounding MOB-015 is extremely encouraging and we look forward to Phase 3 results, which we expect in the first quarter of 2025. With positive results from this trial, we anticipate submitting a new drug submission to Health Canada in the first half of 2025. Many specialists we have consulted within the field have communicated to us that, if Cipher can bring a nail fungus treatment product to the

Canadian market with a higher complete cure rate than the present day product, they will immediately prescribe it. This leads us to believe that, once launched, MOB-015 will rapidly take market share in the total \$91 million Canadian market for nail fungus indication.

Our second pipeline product, Piclidenoson, continues to make regulatory progress. Our partner, Can-Fite BioPharma, received positive feedback from both the US FDA on the design of its pivotal trial, Phase 3 trial, recently in December 2023. To align requests for the FDA and the EMA, Can-Fite plans to run two Phase 3 studies in parallel and, upon positive conclusion of both programs, will submit both new drug application to the FDA and a marketing authorization plan to the EMA. Cipher has in-licensed this product for distribution within Canada and it represents a market opportunity to the Company in excess of C\$40 million.

To conclude my opening remarks, I would like to briefly touch on Cipher's M&A strategy. As we have successfully transitioned the business into a streamlined, profitable operation, the Company is moving into a new chapter of growth. Due to the Company's strong balance sheet, access to substantial liquidity, and predictable free cash flow generation, Cipher finds itself in an enviable position within the Canadian specialty pharma landscape. Throughout 2023, several opportunities have presented themselves to the Company and we plan to take this opportunity to build upon the existing platform and accelerate growth of the overall business. Bryan and I are spending most of our time evaluating and negotiating with several groups and a handful of these opportunities, we believe, have the potential to close in the near term. We are hopeful that Cipher will be able to announce one or more of these transactions in the near future and we feel that these transactions will be a major catalyst for Cipher and

its shareholders. I am very excited about the direction of the Company and look forward to updating the market as we execute on our overall strategy.

I will now pass the call over to Bryan Jacobs, our CFO. Please go ahead, Bryan.

Bryan Jacobs — Chief Financial Officer, Cipher Pharmaceuticals Inc.

Thank you, Craig, and good morning, everyone. As a reminder, all amounts provided are in US dollars, unless I otherwise note. I'll first provide highlights on our results for the fourth quarter, the three-month period ended December 31, 2023, and then turn my comments to our highlights from our 2023 annual results.

As Craig mentioned earlier, our base business continues to consistently perform. Total net revenue was \$4.9 million for the fourth quarter of 2023 and was flat or consistent with revenues in the comparative period. Overall licensing revenue was \$1.5 million for the fourth quarter compared to \$2 million in the prior year quarter. Licensing revenue from the Absorica portfolio in the US was \$1 million, down from \$1.3 million in the comparative period in 2022. The decrease in licensing revenue from the Absorica portfolio resulted from lower royalties earned on net sales from our distribution partner.

Absorica and the authorized generic version of Absorica and Absorica LD's market share for the year ended December 31, 2023 increased by 1% compared to the prior year, which was approximately 6.9% at the end of 2023. Revenue from Lipofen and the authorized generic version of Lipofen was \$0.5 million for the quarter compared to \$0.7 million in the comparative quarter. This decrease was attributable to lower sales volumes and net sales from our distribution partner.

Moving to our Canadian product portfolio, total product revenue was \$3.4 million compared to \$2.9 million in the comparative period of 2022. The increase of \$0.5 million was primarily due to market share gains from Epuris. Sales from Epuris in the fourth quarter were \$2.9 million compared to \$2.6 million in the prior year quarter, representing an increase of around 10%.

Selling and marketing and administrative expenses were \$1.3 million for the fourth quarter compared to \$1 million in the comparative period in 2022. The increase is primarily attributable to our contract sales force and marketing initiatives focused on Epuris.

Adjusted EBITDA for the fourth quarter was \$2.9 million compared to \$3.1 million in the prior year quarter. The decrease is mainly driven, as I previously mentioned, the sequential decrease in licensing revenue in the quarter.

I'll now turn my comments towards our annual results for the year. Total net revenue for the year ended December 31, 2023 was \$21.2 million compared to \$20.7 million in the year ended December 31, 2022, representing a total increase of 2%.

Licensing revenue for the year was \$8.5 million compared to \$8.1 million in the prior year, representing an increase of 4%. Licensing revenue from the Absorica portfolio in the US was \$6.1 million for the year, an increase of \$0.9 million compared to \$5.2 million in the year ended December 31, 2022. The year-over-year increase is primarily attributable to increased sales volumes from Absorica AG combined with higher product shipments in the third quarter of this year.

Product revenue increased by \$0.2 million or 1% to \$12.7 million for the year ended December 31, 2023 compared to \$12.5 million for the year ended December 31, 2022. Our product revenue relates to the sales of our products here in Canada; therefore, are subject to foreign exchange. On a constant currency basis, product revenue increased \$0.6 million or 5% year over year. Product revenue from Epuris was \$10.8 million for the year ended December 31, 2023, a decrease of \$0.5 million or 4% from the \$11.3 million in the comparative year. Excluding the foreign exchange impact of \$0.4 million, Epuris revenues were largely consistent with 2022 levels. Further, Epuris' market share increased by 2.2% to 45% at the end of December 31, 2023, according to market-based data. Product revenue from all other Canadian portfolio products was \$1.8 million for the year, representing an increase of 54%.

Selling, general, and administrative expenses were \$5.7 million for the year, an increase of \$1.1 million or 25% from the previous year. The increase is mainly driven by non-cash stock-based compensation of \$0.8 million and \$0.3 million of restructuring costs that were incurred in the period that are non-recurring.

Income tax recovery was \$7.7 million for the year ended December 31, 2023 compared to an income tax recovery of \$15.2 million for the year end December 31, 2022. The \$7.5 million decrease in the total tax recovery is due to a lower change in the Company's deferred tax assets in 2023 compared to 2022 associated with unused tax loss carryforwards. As of December 31, 2023, the Company had recognized a deferred tax asset in the consolidated financial statements of \$19.9 million. The Company believes it is probable that future tax income will be available, against which these tax losses can be utilized.

Adjusted EBITDA for the year was \$12.7 million compared to \$12.4 million in the prior year, an increase of 2%. Our EBITDA and adjusted EBITDA margins remain strong relative to our peers in the industry, coming in at 57% and 60%, respectively.

Net income for the year was \$20.4 million or \$0.82 per common share compared to net income of \$26.6 million or \$1.05 per common share in the prior year. The decrease in net income is due to the reduced income tax recovery associated with the lower change in the Company's deferred tax assets I previously described.

As of December 31, 2023, the Company has \$39.8 million in cash and no debt. We generated \$16 million in cash from operating activities and a total increase in cash balances of \$11 million for the 12 months ended December 31, 2023.

Additionally, we executed a highly successful substantial issuer bid, which closed in the fourth quarter, which we're very proud to announce, where we acquired 1.3 million shares or \$4.7 million. Our share acquisition price of C\$4.65 was an accretive allocation of capital whereby our present share price is well above this level.

With our cash on hand, available credit facilities, and favourable positioning, as Craig talked about earlier, we're in an excellent position to be opportunistic and act quickly on strategic M&A transactions.

Now we'll open up the call to questions.

Q & A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press the star followed by the number one on your telephone keypad. You will hear a three-tone prompt acknowledging your request and your questions will be polled in the order they are received. Should you wish to decline from the polling process, please press the star followed by the number two. If you are using a speakerphone, please lift the handset before pressing any keys. One moment please for your first question.

And your first question comes from the line of Andre Uddin from Research Capital. Your line is open.

Andre Uddin — Analyst, Research Capital

Hi, Craig and Bryan. Just looking into the future, if I read your press release, you mentioned that you're developing MOB-015 in terms of a commercial launch plan. How many sales reps do you think you'll require for that future launch and is there a minimum number of sales reps that you would require by your partner? That would be great. Thanks.

Craig Mull — Interim Chief Executive Officer, Cipher Pharmaceuticals Inc.

Those plans are all in process right now, but what we're looking at is having a specialized sales force that will focus on this product and the product launch itself. And currently, as Bryan indicated, we use a contract sales organization, and that group has done very well for us with Epuris. And just to give

listeners a little bit of the history with Impres, which is our contract sales group, Impres were the group that launched Epuris back in 2012 as well. Impres was also the group that launched Jublia for Bausch. So we think they've got a good idea of what the market requires and we're working closely with them, but I would say that we're going to probably start within the range of eight to ten sales reps. We do have some requirements under our license with MOB, but it's well within that level number of salespeople. And I think that, as we get closer to the launch, we will have a very clear plan of what we're going to follow.

Andre Uddin — Analyst, Research Capital

That's great, thanks. And then just in terms of the US market, if we're looking at the market dynamics surrounding Absorica, are there any major changes that you're seeing in terms of pricing competition? Could you just maybe comment on that? That would be great.

Craig Mull — Interim Chief Executive Officer, Cipher Pharmaceuticals Inc.

Andre, we're seeing what I believe is quite a stable market now. The product has gone through the genericization process. We still have significant share of that entire market and we don't see a lot of switching going on at this point. We believe it's stabilized.

Bryan Jacobs — Chief Financial Officer, Cipher Pharmaceuticals Inc.

And to add on to that, there have been opportunities that our distribution partner took to gain some market share, like we've disclosed, so I think there's tactical moves from the different generic players in order to drive volumes, but otherwise, as Craig said, we just see it as a very stable product and royalty stream for us.

Andre Uddin — Analyst, Research Capital

Okay. That's great. That's it for me. Thank you.

Operator

And your next question comes from the line of Justin Keyword from Stifel. Your line is open.

Justin Keyword — Analyst, Stifel

Good morning. Thanks for taking my call. Just coming back to those comments on Absorica being a stable royalty stream, is that how you see it going forward? Because it was down 30% in the quarter year on year.

Bryan Jacobs — Chief Financial Officer, Cipher Pharmaceuticals Inc.

We're seeing volatility there, Justin. Like on an overall basis, I think as you heard, we were higher than last year. Q4 was a bit lower. Q3 we were sequentially quite a bit higher, which drove a lot of our sales. So really what we're seeing is our distribution partner has been able to use their clout, they're a large pharmaceutical organization, to drive greater volumes. When you have a distribution partner that has many products and many generics, they have the ability to do that and drive volume, so that's where we really see the benefit from it. Year over year we were higher on that royalty stream and we think it's going to be a good cash contributor in the future.

Justin Keyword — Analyst, Stifel

Okay. And has the pricing stabilized? It sounds like there's some volume growth there, but what about the pricing?

Craig Mull — Interim Chief Executive Officer, Cipher Pharmaceuticals Inc.

Sorry, Justin, could you just repeat that question? We had some background noise here.

Justin Keyword — Analyst, Stifel

Sure. The pricing for Absorica, has that largely stabilized?

Bryan Jacobs — Chief Financial Officer, Cipher Pharmaceuticals Inc.

The pricing for Absorica largely does not change unless our distribution partner will run certain promotional programs. So that's something that we did see occur in the middle of last year in 2023. So they may run pricing programs, but relatively our price for the product and most of the volumes are on the authorized generic don't largely change, nor do our competitors' pricing largely change.

Justin Keyword — Analyst, Stifel

Understood. Thank you. And then on potential M&A, obviously the balance sheet is in fantastic shape. About a third of the market cap is in cash. I believe there's a substantial tax loss credit that could be potentially used and the cash flow accretion could be quite substantial on M&A. So if you're just able to describe the pipeline, the therapeutic areas that you're looking at, the potential size of transactions, and then the target multiples.

Craig Mull — Interim Chief Executive Officer, Cipher Pharmaceuticals Inc.

Again, I think that we indicated that, in my speech anyway, that we're looking at both product and company acquisitions and those products are both in Canada and the US. We're looking for products that would be typically referred to as legacy products, products that have got very stable cash flow and preferably some type of moat built around it to defend against potential competitors. And those moats could include like safety program or patents or some type of restriction on API, for example. And those are the product types that we're looking for.

On the acquisition side, we would prefer to continue to specialize in derm and we've got a couple of targets that would fit those bills. We're also looking perhaps expanding into another therapeutic area that seems to have some of that built-in protection that we're looking for and that would be CNS. We believe that those drugs, once they start being prescribed, physicians are very reluctant to change their ordering patterns for those particular patients.

So I think that we're looking both Canada/US for product acquisitions and company acquisitions and our preference, our first preference is in derm.

Justin Keyword — Analyst, Stifel

Understood. Any indication of size? Thanks.

Craig Mull — Interim Chief Executive Officer, Cipher Pharmaceuticals Inc.

Well, I mean I think that we've got capability, we've got \$40 million in the bank, and we've got a line that we could use up to \$35 million with RBC. I think if the right acquisition came along, that we would go even higher than that, but we certainly have the capability to do a deal at \$75 million. I would say quite a bit higher if we decided to do that.

Bryan Jacobs — Chief Financial Officer, Cipher Pharmaceuticals Inc.

\$75 million is the floor, really, because we don't have to do too much more and we can upsize for the right deal to quite easily twice that size.

Justin Keyword — Analyst, Stifel

Understood. And I believe in the opening remarks there was mention of possibly executing on an acquisition in the near term. Is near term, is it fair to say in 2024?

Craig Mull — Interim Chief Executive Officer, Cipher Pharmaceuticals Inc.

Yes, that would be fair.

Justin Keyword — Analyst, Stifel

Thank you very much.

Craig Mull — Interim Chief Executive Officer, Cipher Pharmaceuticals Inc.

Thanks, Justin.

Operator

And your next question comes from the line of Dean Trottier. Your line is open.

Dean Trottier — Private Investor

Hi there. Good morning. I just have a couple of quick questions. The generic version, or I guess it's not the generic version, Sun launched Absorica in Canada, I believe, in mid-December. I'm wondering if you guys are seeing any impact as we're almost done the first quarter here in 2024.

Craig Mull — Interim Chief Executive Officer, Cipher Pharmaceuticals Inc.

No, we have not heard any impact. We are tracking that very closely. They're out promoting the product. We believe that they're going to have some fairly significant challenges with that product. It is being promoted as the same as Epuris. Physicians in Canada are not aware of the brand name Absorica and it's Absorica LD. The LD stands for a lower dose. So what they're bringing to market is a product that they're saying is the same as Epuris, but only slight, the difference is that it's slightly lower dose. So they're implying that it's a safer product, which isn't true.

Dean Trottier — Private Investor

Okay, that's—

Craig Mull — Interim Chief Executive Officer, Cipher Pharmaceuticals Inc.

You know, we're tracking it and our focus is in converting Accutane users and we've been doing a good job of that. At the same time, we're defending against that LD product, because it is not, it doesn't present any added value over Epuris and it will require physicians to do a separate calculation on dosing. And I think that, based on the fact that they don't think there's value there, that there will be very few that would convert to that.

Dean Trottier — Private Investor

Okay. That's very helpful, thanks. The other question, it's not related to any of the products specifically, but about a week ago there was a couple of articles published that Health Canada was reviewing a finding in the States around a toxic amount of benzene in some of the acne products. I was wondering if you could comment on what that, if that has any implications for Epuris or any of the products.

Craig Mull — Interim Chief Executive Officer, Cipher Pharmaceuticals Inc.

I mean, thinking positively here, physicians might decide not to tell the patient to go to the pharmacy and buy this product over the counter. They may say, hey, it would be better for you just to go on a safe prescription instead. And that would be Epuris. Those are different category of products, but thinking positively, there may be some increase in Epuris because of it. But I think it's low [inaudible].

Dean Trottier — Private Investor

Okay. That's helpful. And then the last one is just any updates you have or you can share with the launch of Epuris in Mexico. I think it was Q2 of 2023 it was launched. I'm just wondering, I know it's quite a different market and everything, but any colour you can provide would be helpful.

Craig Mull — Interim Chief Executive Officer, Cipher Pharmaceuticals Inc.

I think Italmex has gotten off to a good start with launching the product. Sales are going slower than we had expected. We don't have great expectations overall for that business, but it will be a nice add on and we're doing what we can to help Italmex gets more traction on their launch.

Dean Trottier — Private Investor

Okay. All right, thanks. That's very helpful. Thanks. Have a good rest of your day, guys.

Craig Mull — Interim Chief Executive Officer, Cipher Pharmaceuticals Inc.

Thank you.

Operator

Thank you. And there are no further questions at this time. I would like to turn it back to Mr. Craig Mull for closing remarks.

Craig Mull — Interim Chief Executive Officer, Cipher Pharmaceuticals Inc.

Thank you. Just to conclude, we think that we are in a very good position right now. We're very excited about some potential acquisitions here that we're working very hard on and I expect that, in the coming quarters, we will have much more to talk about. Thank you very much for your time today and we look forward to keeping you updated on our progress.

Operator

Thank you, presenters. And ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.