

Cipher Pharmaceuticals Inc.

(DND-TSX)

***DND: Strong Third Quarter Results;
 Maintaining Buy Rating.***

UPDATE

Current Recommendation	Buy
Prior Recommendation	N/A
Date of Last Change	01/03/2012
Current Price (10/24/12)	\$2.00
Target Price	\$3.50

Cipher reported strong financial results for the third quarter 2012, posting revenues of \$2.1 million, up 89% year-over-year. Net income was \$0.8 million, or \$0.03 per share. This was Cipher's third profitable quarter in a row. Based on our model, we expect that Cipher will be profitable in the fourth quarter 2012 as well. Cipher has 3 approved products generating revenues, \$15.1 million in cash, no debt, upcoming catalysts, and an attractive valuation.

We continue to be optimistic on the Cipher story. Our DCF model now calculates fair-value at \$3.50 per share. Our rating is 'Outperform'.

SUMMARY DATA

52-Week High	2.30
52-Week Low	0.64
One-Year Return (%)	162
Beta	1.22
Average Daily Volume (sh)	8,643

Risk Level

Type of Stock
 Industry

Average,
 Small-Value
 Med-Biomed/Gene

Shares Outstanding (mil)	24.4
Market Capitalization (\$mil)	48.8
Short Interest Ratio (days)	1.6
Institutional Ownership (%)	N/A
Insider Ownership (%)	N/A

Annual Cash Dividend	\$0.00
Dividend Yield (%)	0.00

5-Yr. Historical Growth Rates

Sales (%)	N/A
Earnings Per Share (%)	N/A
Dividend (%)	N/A

P/E using TTM EPS	N/A
P/E using 2012 Estimate	N/M
P/E using 2013 Estimate	6.9

ZACKS ESTIMATES

Revenue

(millions of CAD)

	Q1	Q2	Q3	Q4	Year
	(Mar)	(Jun)	(Sep)	(Dec)	(Dec)
2011	0.7 A	0.7 A	1.1 A	1.0 A	3.6 A
2012	1.8 A	1.6 A	2.1 A	2.2 E	7.7 E
2013					14.0 E
2014					20.8 E

Earnings per Share

(EPS is operating earnings)

	Q1	Q2	Q3	Q4	Year
	(Mar)	(Jun)	(Sep)	(Dec)	(Dec)
2011	-\$0.05 A	-\$0.02 A	-\$0.01 A	-\$0.02 A	-\$0.10 A
2012	\$0.01 A	\$0.01 A	\$0.03 A	\$0.03 E	\$0.07 E
2013					\$0.29 E
2014					\$0.53 E

WHAT'S NEW

Recent Financials

On October 24, 2012, Cipher Pharmaceuticals reported financial results for the third quarter 2012. Total revenues in the quarter were \$2.118 million, in-line with our forecasts. Revenues consisted of approximately \$1.3 million in royalties and milestones on Lipofen, \$0.3 million in royalties and milestones in ConZip/Durela, and \$0.5 million in milestones on Absorica (CIP-Isotretinoin).

With respect to Lipofen, at the end of the second quarter 2012, Cipher achieved a contractual sales goal for product sales resulting in a royalty percentage increase by 3% (we model from 15% to 18%). We note this change in Lipofen royalty was retroactive to October 2011, resulting in a one-time catch-up payment on Lipofen royalties recorded in the third quarter 2012 of roughly \$0.35 million. Lipofen monthly total prescriptions are tracking around 25,000 per month, showing solid growth throughout 2012.

Cipher reported net income of \$0.754 million during the third quarter 2012. Despite revenues being up 89% year-over-year in the third quarter 2012, operating expenses of \$1.364 million were actually down slightly from \$1.369 million in the third quarter 2011. Management continues to do an excellent job of maintaining low operating expenses despite the growing top-line and strong cash balance. Operating expenses consisted of \$0.80 million in operating overhead, \$0.34 million in research & development, and \$0.23 million in amortization and depreciation. Net income per share was \$0.03 based on 24.4 million shares outstanding. This was Cipher's third profitable quarter in a row. We are expecting a profit in the fourth quarter 2012 based on Ranbaxy launching Absorica (CIP-Isotretinoin) in the fourth quarter 2012. Validation batches have been completed and Ranbaxy is currently working on sales force training and reimbursement. Once launched, we expect that Absorica, a potential \$150+ million opportunity in the U.S., will be a meaningful driver of both the top- and bottom-line at Cipher in the coming years.

Cipher exited the quarter 2012 with \$15.1 million in cash and equivalents, up \$0.7 million from the second quarter 2012. We are impressed that the company can grow its cash balance even as it acquires new products, as management did with Betesil Patch in August 2012.

Stock Looks Significantly Undervalued

We have conducted a discounted cash flow (DCF) analysis to value the shares of Cipher Pharmaceuticals Inc. Our model now shows that Cipher is worth \$3.50 per share. In the first quarter 2012, the company received a milestone payment on Lipofen sales from commercialization partner, Kowa Pharmaceuticals netting \$0.5 million. Cipher received a net \$4.5 million cash payment from Ranbaxy based on Absorica approval in the second quarter 2012. In the third quarter 2012, the company recorded a catch-up payment on a retroactive increase in Lipofen royalties from Kowa of \$0.35 million. In the fourth quarter 2012, Ranbaxy will launch Absorica.

In the next six months the company should hear back from Health Canada with respect to CIP-Isotretinoin approval and file the new drug submission (NDS) on Betesil Patch. Cipher has three approved products, four revenue streams, a potential drug approval coming early next year, \$15.1 million in cash and no debt. These are solid fundamentals. Our model (posted below) shows that operating cash flow should turn positive in 2013 on a sustained basis. Based on our estimate for EPS of \$0.29 in 2013, Cipher is trading at 6.9 times earnings. We think that's cheap for a company that just grew revenues by 89% in the previous quarter.

Approval of Absorica was transformational for Cipher. Absorica is a potential \$150+ million drug in the U.S., and Cipher will collect 8-10% royalties on sales with no ongoing expenses from Ranbaxy. The potential approval of CIP-Isotretinoin in Canada, along with the astute acquisition of Betesil Patch, moves Cipher squarely into the Canadian specialty pharmaceutical market, making the company ripe for an eventual acquisition. It's time for U.S. investors to take notice. This is a stock to own. Our rating is 'Buy'.

INVESTMENT UPDATE

Absorica Approved!

On May 27, 2012, Cipher Pharmaceuticals announced it had received U.S. FDA approval of Absorica, the company's novel, patented brand formulation of the acne medication isotretinoin, for the treatment of severe recalcitrant nodular acne. Approval triggered two milestone payments to Cipher totaling \$9.0 million from commercialization partner Ranbaxy, of which Cipher retained 50% after paying sub-milestones to Galephar. Cipher will also receive royalties (mid-teens) on net U.S. sales and is eligible for future milestone payments (totaling net \$5 million to Cipher) based on sales targets. Through conversations with management, we believe the two net \$2.5 million sales-related milestones are achievable under the current expected plans with Ranbaxy.

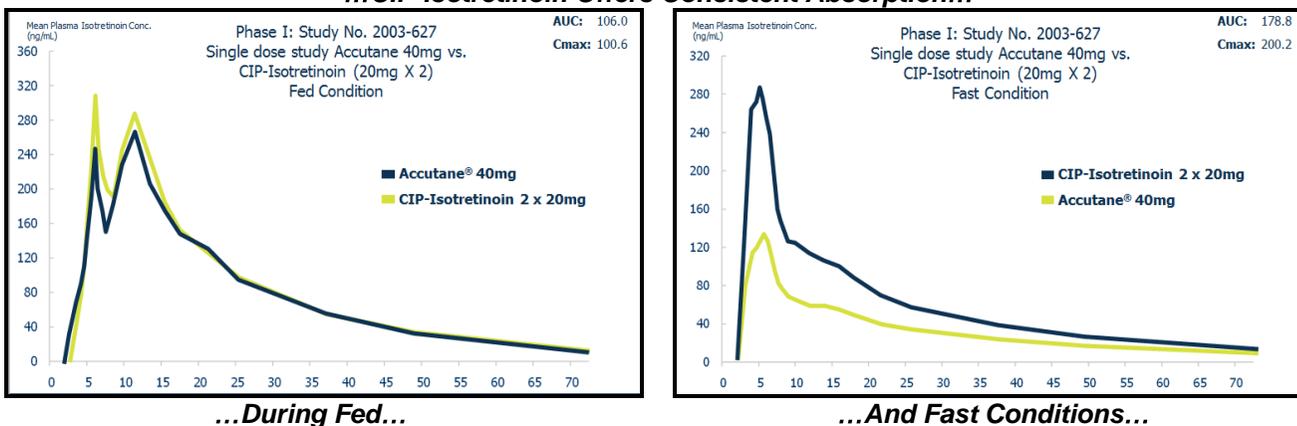
...Improved Formulation...

Absorica is based on Galephar's oral Lidose drug delivery system. Lidose facilitates a precise, consistent, and uniform dosage delivery with an absorption characteristic consistent with or without food versus traditional generic Isotretinoin. A major issue for existing isotretinoin products is patient compliance, as the active ingredient should be taken with a high-fat meal to ensure consistent absorption. Current generic Isotretinoin products have an estimated 70% variability in absorption depending on dietary intake causing inconsistency in dose – a major issue when dealing with teenagers.

Cipher's product offers more consistent absorption day-in and day-out over the course of a typical 3- to 5-month treatment period. We think this will be a significant marketing advantage for the drug. There are currently no promoted branded Isotretinoin products in the U.S. Existing branded products, Teva's Claravis and Mylan's Amnesteem, rely on previous patient and physician experience with Roche's Accutane (isotretinoin) to drive sales. The efficacy profile of Isotretinoin is powerful enough that over one million prescriptions were written in 2011 despite this lack of active promotion.

All three products discussed above exhibit significant reductions in absorption under fasting conditions. We note this is not a problem for Cipher's Absorica (CIP-Isotretinoin). In total, Isotretinoin products posted sales of \$466 million in 2010, up over 10% from 2009. We think Absorica will benefit from all of the known efficacy benefits of generic Isotretinoin, but with the improved formulation market share gains should be meaningful. We note that the FDA has labeled Absorica so that it is not substitutable with generic Isotretinoin. We see this is a meaningful advantage for Cipher.

...CIP-Isotretinoin Offers Consistent Absorption...

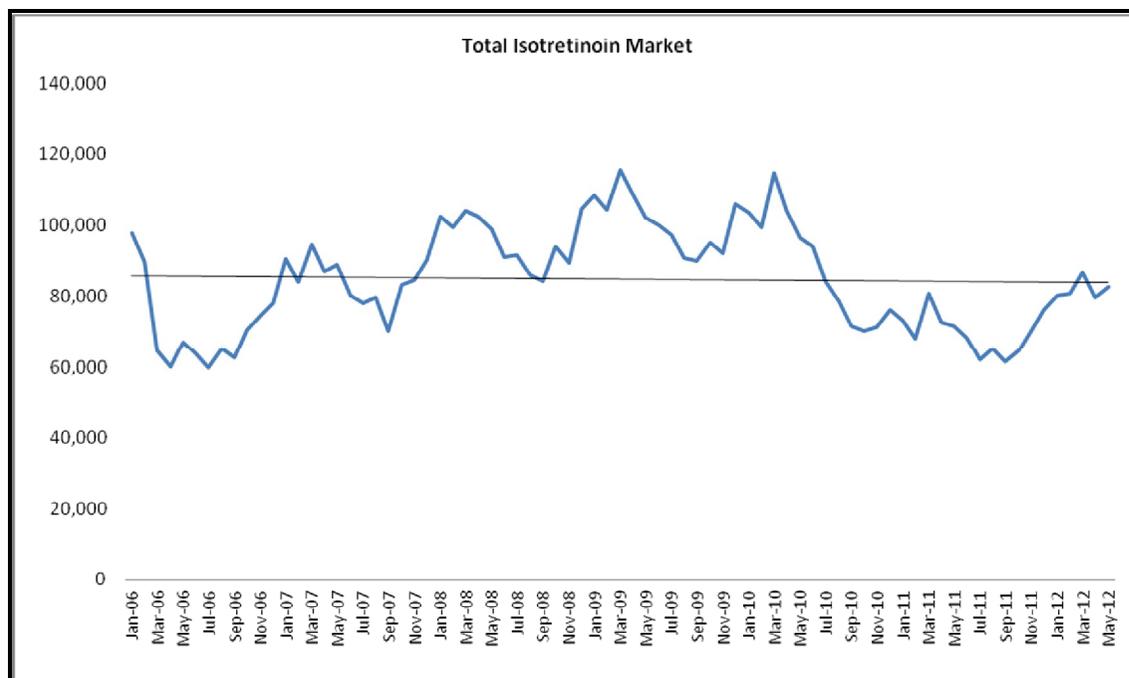


Ranbaxy plans to launch Absorica in the fourth quarter 2012 with a dedicated 50-person sales force. Venkat Krishnan, Ranbaxy's SVP and Regional Director, noted that the company plans to position Absorica as the flagship brand (primary detailing position) within its specialized dermatology sales force. We are excited that Cipher has partnered with Ranbaxy to commercialize Absorica. Ranbaxy has experience in the isotretinoin market with Sotret. We note that in 2009, Ranbaxy had to recall a single lot of Sotret when the FDA issued a Class-III warning on manufacturing, citing deviations from good manufacturing practice (GMP) at the company's plant in India. Sotret achieved annual sales of \$41 million in the U.S. in 2009. Sales were triple that in 2008 prior to the recall.

We are not concerned about history repeating itself with manufacturing issues on Absorica because Ciper is responsible for product supply and manufacturing, which will be fulfilled by its partner, Galephar.

...Big Opportunity...

We see a significant opportunity for Absorica once launched. Despite strict FDA monitoring around prescriptions of isotretinoin, the market remains quite robust. Generic (multiple providers) isotretinoin does around \$500 million in sales in the U.S., and that is with no promotion. Prescriptions have remained fairly consistent over the past few years, perhaps trending down slightly since late 2009 once Roche exited promoting Accutane.



We estimate that in terms of a “branded” opportunity, the Isotretinoin market is around \$500 million in size. We remind investors that Roche had Accutane sales over \$750 million at peak. We believe that Ciper’s Absorica product, being the only promoted branded Isotretinoin on the market, could achieve peak sales near \$200 million. Absorica offers significant advantages over generic isotretinoin in terms of dosing flexibility.

The market is currently dominated by two un-promoted branded products, Mylan’s Amnesteem and Teva’s Claravis. Amnesteem posted sales of \$136 million in 2010 on 386K scripts. Claravis posted sales of \$330 million in 2010 on 670K scripts.

...Canada Up Next...

On January 30, 2012, Ciper announced that Health Canada had accepted the company's New Drug Submission (NDS) for CIP-Isotretinoin for review. We are expecting a decision out of Health Canada in the first quarter 2013. The NDS was first submitted to Health Canada in late December 2011. We view CIP-Isotretinoin as a potential \$10 million opportunity in Canada. The total Isotretinoin market in Canada is small, only around \$20 million total.

Only two products, Roche’s Accutane and Mylan’s Claravis are on the market, with little to no promotion. Therefore, we believe that a sales force of 6 to 8 representatives could effectively promote the product in-house. We expect that Ciper will seek to commercialize the drug on its own in 2013. Approval in Canada will create a meaningful shift in the company’s future development plans, as evidenced by the acquisition of Betesil Patch in August 2012 (discussed below). Ciper seeks to become a specialty pharmaceutical company with multiple products and its own sales force in Canada over time, and we do not think Ciper is done yet. We expect the company to in-license another late-stage or Health Canada approved dermatology or pediatric product in 2013 to compliment CIP-Isotretinoin and Betesil Patch. We think the 6 to 8 person sales force becomes cash flow positive for Ciper in Canada at sales around \$3 million. We think this can be achieved by 2014 assuming Betesil Patch is approved.

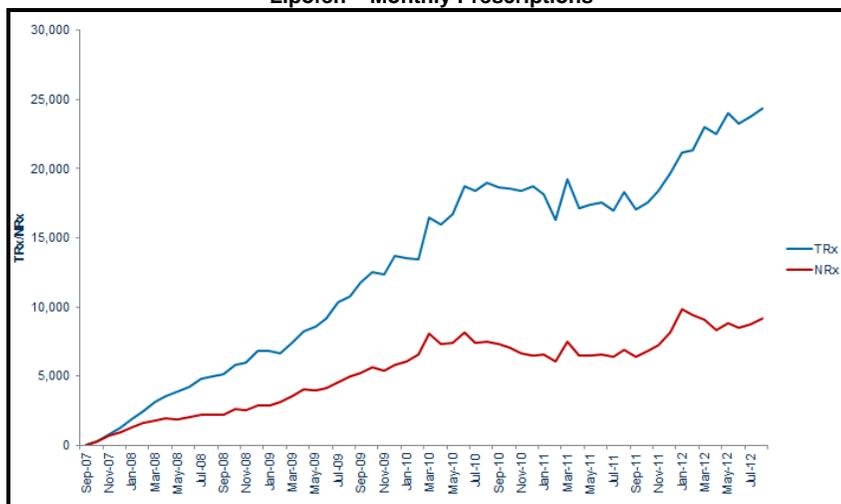
Good Quarter For Lipofen

As noted above, Lipofen contributed \$1.3 million in the third quarter 2012. In December 2011, Kowa Pharmaceuticals America, Inc. (KPA) won an important formulary listing for Lipofen with United Healthcare. United Healthcare has listed Lipofen at tier-2 coverage, dropping two other competitive fenofibrate products to tier-3. The move facilitates United Healthcare customers to refill existing fenofibrate prescriptions with Lipofen. This new coverage and KPA's increased promotional effort led to a solid increase in monthly prescriptions throughout 2012.

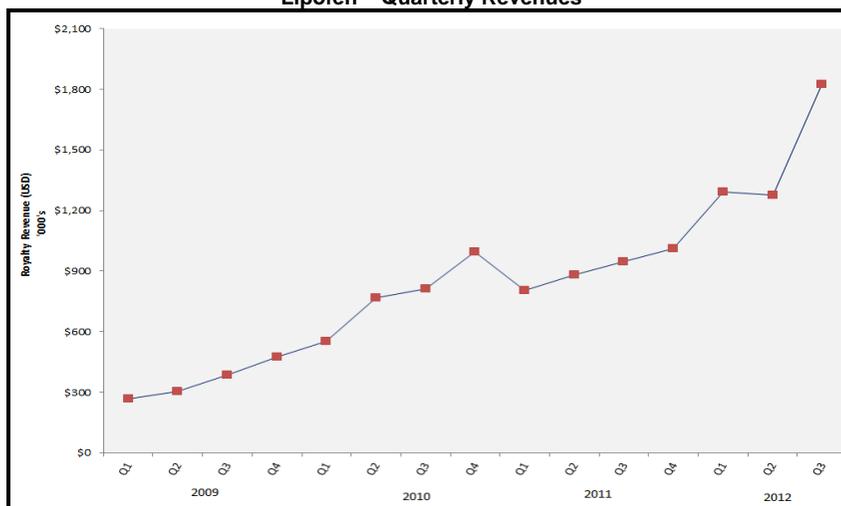
On February 6, 2012, Ciper announced that it has achieved a \$1.0 million one-time sales milestone payment from Kowa for Lipofen based on the trailing 12-month period. The milestone came earlier-than-expected, no doubt driven by the improved formulary coverage at United Health and the strong January 2012 sales performance for the drug. Subsequent to the end of the second quarter 2012, Ciper achieved another milestone from KPA on sales in a contract year. This milestone resulted in a one-time increase in the royalty rate by 3% (we model from 15% to 18%). The step-up in royalty was retroactive back to the start of the contract year, or back to October 2011. As a result, Ciper booked a catch-up payment of approximately \$0.7 million in the third quarter 2012, of which Ciper will keep 50% and pay 50% to Galephar – so net \$0.35 million catch-up payment.

We expect that net Lipofen revenues for the full year 2012 will total about \$4.6 million, driven by \$4.1 million in royalties and catch-up payments and \$0.5 million in the recognition of the milestone payment for KPA noted above for the TTM sales eclipsing \$25 million. We forecast royalties will continue to grow in 2013 and beyond, up to \$4.6 million in 2014 when the patent expires.

Lipofen – Monthly Prescriptions



Lipofen – Quarterly Revenues



Source: Ciper Pharmaceuticals, Inc.

ConZip & Durela Just Getting Started

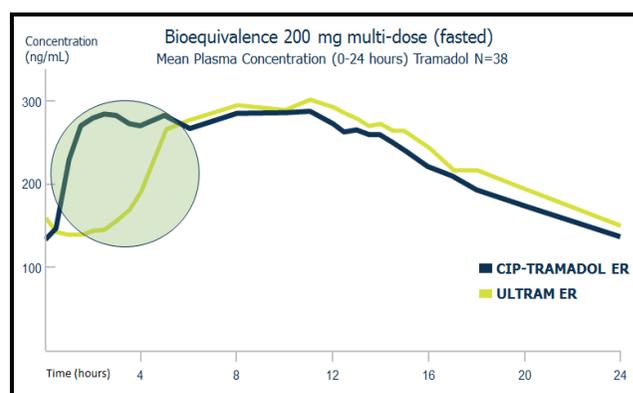
Cipher's extended-release tramadol (CIP-Tramadol-ER) was launched in the U.S. by Vertical Pharmaceuticals in September 2011 under the trade name ConZip. Vertical has dedicated a sales force of 60 representatives, with plans for further expansion in the fourth quarter 2012. Product sales to date have been encouraging. We expect sales to grow substantially as U.S. physicians gain more experience with the product and Vertical expands its coverage. Cipher recorded \$1.0 million in revenues on ConZip so far in 2012.

...A Little Background...

Tramadol is widely available as a generic tablet (50mg to 300mg). It is also available in combination with acetaminophen and aspirin. Several formulations of tramadol exist, including capsules (regular and extended release), tablets (regular, extended release, chewable, sublingual, effervescent, suppositories), sterile solutions, injections, powders, topical (liquid with or without alcohol). Cipher's CIP-Tramadol-ER is a novel, extended-release formulation used for the management of moderate to moderately severe pain. The formulation is designed to provide a smooth consistent plasma level over an extended period of time. Absorption is pH-independent, enabling the product to be taken with or without food – a key differentiator to generic tramadol ER. CIP-Tramadol-ER also provides remarkably fast absorption, allowing for peak therapeutic plasma concentrations to be achieved in as little as 60 minutes – again superior to generic tramadol ER.

	Ultram ER®	Ryzolt™	CIP-Tramadol ER
Time to reach therapeutic levels (100ng/ml plasma levels)	240 minutes	60 minutes	60 minutes
Food Effect	Yes	Yes	No
Therapeutically Active Dosages			
100 mg	Yes	No	Yes
200 mg	Yes	Yes	Yes
300 mg	Yes	Yes	Yes
Dosage Format	Tablets	Tablets	Capsules

...Superior Dosing...



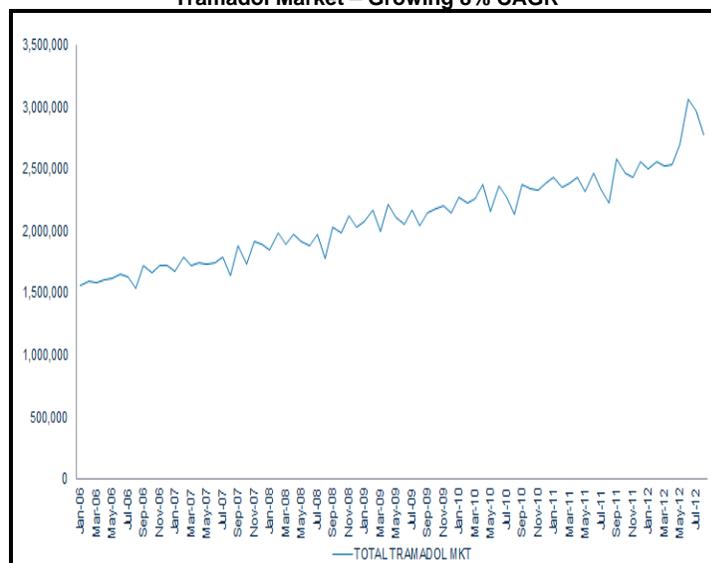
...Superior Pharmacokinetics...

...Niche Opportunity...

Tramadol is one of the most widely-used opioid analgesics for moderate pain. According to IMS, the U.S. market for extended release formulations of tramadol was approximately \$163 million in 2010, which represents half of the dollar sales for total Tramadol sales in the U.S. in 2010 at \$326 million. However, these sales are being generated by only a fraction of the scripts.

The total tramadol market exceeded 36 million prescriptions in 2011, up nearly 20% year-over-year from the 30.5 million scripts in 2010. Scripts for extended release formulations of Tramadol account for only 2.5% of the total scripts. Sales are being driven by the few branded and promoted Tramadol-ER products, J&J / Valeant's Ultram-ER and Purdue Pharma's Ryzolt. Branded Ultram-ER sales in 2010 were approximately \$66 million. Ryzolt sales totaled \$18 million in 2010.

Tramadol Market – Growing 8% CAGR

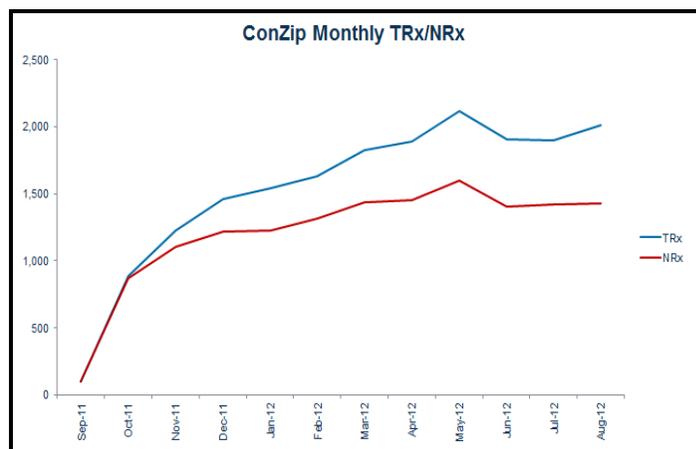


Total Tramadol-ER sales in 2011 were roughly \$130 million, down from the \$160 million in 2010 on less promotion from branded players. We see an opportunity to re-ignite Tramadol-ER prescriptions and sales with active promotion of the differentiated product like CIP-Tramadol-ER.

...U.S. Launch Gaining Steam...

In July 2011, Cipher announced that it had entered into a distribution and supply agreement with Vertical Pharmaceuticals, Inc., under which Cipher has granted Vertical the exclusive right to market, sell and distribute CIP-Tramadol-ER in the U.S. Vertical Pharmaceutical is a privately-owned, U.S.-based specialty pharmaceutical company focused on niche prescription drug preparations in the area of pain management, primary care, internal medicine and women's health. We expect primary position detailing for the next six to eight quarters.

Under the terms of the agreement with Vertical, Cipher received an initial upfront and launch payment of \$1.5 million (USD). Cipher is also eligible to receive future payments of approximately \$3.8 million contingent upon the achievement of certain sales milestones. In addition, Cipher will receive a royalty on net sales in the mid-teens. Vertical officially launched the product in September 2011 under the brand name ConZip. Vertical has dedicated an initial sales force of 60 representatives, with plans for further expansion in the fourth quarter 2012. As of September 2012, monthly prescriptions are now tracking over 2.5% of the total tramadol market.



...Canadian Launch Just Under Way...

In August 2011, Cipher received final approval from Health Canada on CIP-Tramadol-ER. A month later, Cipher announced that it had entered into a distribution and supply agreement with Medical Futures Inc., a Canadian-based pharmaceutical company, for the exclusive right to market, sell, and distribute CIP-Tramadol-ER in Canada under the brand name Durela. Medical Futures will add Durela to its suite of specialty pharmaceutical products, including Onypen (topical nail fungus), Iberogast (anti-inflammatory agent), Proferrin (iron supplement), and Mutaflor, Florastor and Purfem (probiotics).

Under the terms of the agreement with Medical Futures, Cipher received an upfront payment of \$0.3 million (CAD). Cipher is also eligible to receive future payments contingent upon the achievement of cumulative net sales milestones. In addition, Cipher will receive a double-digit royalty on net sales Cipher is responsible for product supply and manufacturing, which will be fulfilled by its partner, Galephar Pharmaceutical Research. Medical Futures launched Durela in mid-March 2012 with a dedicated primary care sales force of approximately 22 representatives with plans for further expansion. We expect Cipher will start to record reportable royalties on Durela in the fourth quarter 2012.

Betesil Patch – An Excellent Fit

On August 7, 2012, Cipher announced it has reached agreement with Institut Biochimique SA (IBSA), a privately-owned, global pharmaceutical company headquartered in Lugano, Switzerland, to obtain exclusive license and distribution rights in Canada to market the Betesil Patch, a novel, patent-protected, self-adhesive medicated plaster containing 0.1% betamethasone valerate, for the treatment of inflammatory skin conditions such as plaque psoriasis. IBSA recently began marketing the Betesil Patch in several European countries.

Under terms of the agreement, Cipher paid IBSA an upfront fee of \$0.1 million CAD, followed by other regulatory related milestone payments. Cipher intends to meet with Health Canada in the fourth quarter 2012 to finalize the new drug submission (NDS). We model the NDS filing in early 2013. We note that commercial product will be supplied by IBSA at a cost-plus transfer price.

Betesil Patch is a patent-protected, 7.5x10 cm self-adhesive patch containing 2.25 mg of betamethasone valerate, a medium-potency corticosteroid that is widely prescribed for the treatment of inflammatory skin conditions such as eczema and plaque psoriasis.



Betesil Patch offers an innovative approach to problems commonly associated with betamethasone creams and ointments. Advantages of the product include:

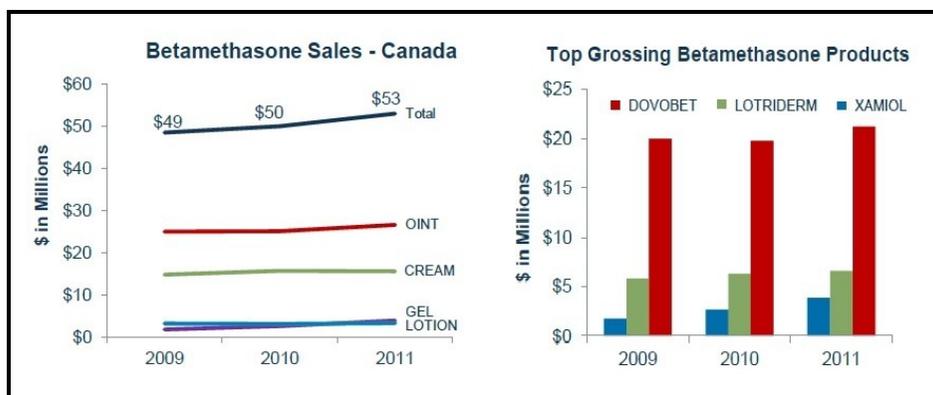
- ✓ Once daily administration: Creams and ointments often need to be re-applied, especially in areas outside the clothes where the cream can be rubbed or washed off.
- ✓ No mess: Betesil Patch is self-adhesive and easily applied, without the mess or smell associated with creams and ointments.
- ✓ Stays in place: Betesil Patch is ideal for difficult-to-treat areas of skin like the knees and elbows. It also focuses betamethasone use in only the affected area, protecting healthy skin from unnecessary corticosteroid exposure.
- ✓ Uniform protection: Betesil Patch provides both a uniform concentration of betamethasone and protection of the lesion from physical damage while the patch is in place from rubbing against clothes or skin. The patch also helps to moisturize the skin, which accelerates healing.

The efficacy and safety of the Betesil Patch has been established in three successful phase 3 trials conducted by IBSA. The first two of these trials showed the non-inferiority of Betesil Patch to 0.1% betamethasone creams in 273 patients with moderate chronic plaque psoriasis.

The third study compared Betesil Patch head-to-head with Taclonex ointment (calcipotriene 0.005% and betamethasone dipropionate 0.064%), sold by Leo Pharmaceuticals in the U.S. as Taclonex and Canada as Dovobet. The 290 patient trial demonstrated Betesil Patch was non-inferior to Taclonex / Dovobet on the primary endpoint of total severity score (TSS) reduction at the end of four weeks. Based on prescription tracking services, Leo Pharma sells roughly \$200 million of Taclonex in the U.S. and \$21 million of Dovobet in Canada for the treatment of plaque psoriasis.

We think this third study, along with the differentiation noted above, will be an important piece of the marketing and promotion campaign that Cipher builds around Betesil Patch once published in a peer-review journal. IBSA is responsible for publishing the data. Cipher management believes the data should be published shortly.

The Canadian betamethasone market grew approximately 6% in 2011 to over \$50 million in sales. The market is made up primarily of ointments and creams. Leo's Dovobet is the market leading product. Xamiol, a gel version of Dovobet, does roughly \$4 million in sales.



...Why It Makes Sense For Cipher...

As outlined above, Cipher plans to promote CIP-Isotretinoin in Canada with a 6 to 8 person special dermatology sales force once approved. This will be a new strategy for a management that has previously looked to larger companies as marketing partners for its products. Promoting the product in-house creates an opportunity for significantly more upside to Cipher; however, it also creates risk. Adding in a second product reduces the risk of building and maintaining the sales force. It also speeds to time to breakeven, as we believe that Betesil Patch is a similar \$10+ million opportunity in Canada. Cipher can now effectively promote both Absorica and Betesil Patch using the same specialty dermatology focused sales force of 6 to 8 representatives.

It's a very astute deal in our view. Financially, Cipher is looking probably less than \$1 million all-in for Betesil Patch. The acquisition provides a second product for the company's specialty dermatology sales force in Canada, thereby lessening the time to break even and raising the upside to shareholders.

VALUATION

We have conducted a discounted cash flow (DCF) analysis to value the shares of Ciper Pharmaceuticals Inc. Our model now shows that Ciper is worth \$3.50 per share. Our model (posted below) shows that operating cash flow should turn positive in 2013 on a sustained basis. By the end of 2012, Ciper will be collecting revenues from three approved products in the U.S., with a growing cash balance of over \$15 million in the bank, no debt, and generating positive cash flow. Ciper is now three-for-three. It's time for U.S. investors to take notice.

Approval of Absorica was transformational for Ciper. Absorica is a potential \$150+ million drug in the U.S., and Ciper will collect 8-10% royalties on sales with no ongoing expenses from Ranbaxy. The potential approval of CIP-Isotretinoin in Canada, along with the astute acquisition of Betesil Patch, moves Ciper squarely into the Canadian specialty pharmaceutical market, making the company ripe for an eventual acquisition. This is a stock to own.

Ciper Pharmaceuticals Inc.	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Net CIP-Fenofibrate Cash Revs	\$4.6	\$4.4	\$4.6	\$1.0	\$0.0	\$0	\$0	\$0	\$0	\$0	\$0
Net CIP-Tramadol Cash Revs	\$0.1	\$0.2	\$1.4	\$0.6	\$1.8	\$1.0	\$1.2	\$1.1	\$1.0	\$0.4	\$0.4
Net CIP-Isotretinoin Cash Revs	\$4.9	\$3.3	\$5.8	\$12.0	\$12.8	\$14.4	\$19.1	\$18.0	\$18.2	\$17.7	\$17.4
Net Betesil Cash Revs	(\$0.1)	\$0.9	\$1.8	\$3.6	\$5.4	\$7.2	\$9.0	\$8.1	\$7.2	\$6.3	\$5.4
Cash Revenues	\$9.5	\$8.8	\$13.5	\$17.2	\$20.0	\$22.6	\$29.3	\$27.2	\$26.4	\$24.4	\$23.2
R&D	\$1.5	\$1.5	\$2.0	\$2.0	\$2.0	\$2.0	\$2.0	\$2.0	\$2.0	\$2.0	\$2.0
SG&A	\$3.5	\$4.5	\$4.8	\$5.2	\$5.6	\$5.6	\$5.7	\$5.7	\$5.8	\$5.8	\$8.0
EBITDA	\$4.5	\$2.8	\$6.7	\$10.0	\$12.4	\$15.0	\$21.7	\$19.5	\$18.7	\$16.7	\$13.2
Depreciation and amortization	\$0.9	\$0.8	\$0.7	\$0.5	\$0.5	\$0.5	\$0.5	\$0.5	\$0.5	\$0.5	\$0.5
EBIT	\$3.6	\$2.0	\$6.0	\$9.5	\$11.9	\$14.5	\$21.2	\$19.0	\$18.2	\$16.2	\$12.7
EBITDA margin	-	22.9%	44.6%	55.2%	59.7%	64.2%	72.2%	69.9%	68.8%	66.1%	54.7%
Cash Taxes	\$0	\$0	\$0	\$0	\$0	(\$3.6)	(\$6.4)	(\$5.7)	(\$5.5)	(\$4.8)	(\$3.8)
Tax Rate	-	\$28M in NOLs as of Q2-2012	-	-	-	25.0%	30.0%	30.0%	30.0%	30.0%	30.0%
Balance Sheet											
Capital Expenditures	\$0.2	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1
Working Capital	(\$0.2)	(\$0.2)	(\$0.2)	(\$0.2)	(\$0.2)	(\$0.2)	(\$0.2)	(\$0.2)	(\$0.2)	(\$0.2)	(\$0.2)
Other Cash Adjustments	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3
Capital Adjustments	\$0.3	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2
Net Margin	37.7%	22.9%	44.6%	55.2%	59.7%	48.1%	50.6%	48.9%	48.2%	46.3%	38.3%
Discounted Cash Flow											
Net Income	\$3.6	\$2.0	\$6.0	\$9.5	\$11.9	\$10.9	\$14.8	\$13.3	\$12.7	\$11.3	\$8.9
Depreciation and amortization	\$0.9	\$0.9	\$0.8	\$0.6	\$0.6	\$0.6	\$0.6	\$0.6	\$0.6	\$0.6	\$0.6
Net Cash Adjustments	(\$0.3)	(\$0.3)	(\$0.3)	(\$0.3)	(\$0.3)	(\$0.3)	(\$0.3)	(\$0.3)	(\$0.3)	(\$0.3)	(\$0.3)
Post-Tax Operating Cash Flow	\$4.2	\$2.6	\$6.5	\$9.8	\$12.2	\$11.2	\$15.1	\$13.6	\$13.0	\$11.6	\$9.2
Dividends	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Free Cash Flow	\$4.2	\$2.6	\$6.5	\$9.8	\$12.2	\$11.2	\$15.1	\$13.6	\$13.0	\$11.6	\$9.2
Assumptions											
Beta:	1.2										
Equity Risk Premium:	6.0%										
Risk Free Rate:	1.8%										
Firm Risk Premium:	75%										
Discount Rate:	12.3%										
Valuation											
10-Year Model:	\$52										
Terminal Growth:	2.0%										
Terminal Value:	\$28										
Net Cash - LT Debt:	\$15										
Firm Value:	\$95										
Price Target											
Basic Outstanding:	24.5										
Options:	1.8										
Dilution:	0.5										
Fully Diluted:	26.8										
Target Price:	\$3.56										

Source: Zacks Investment Research, Inc. Jason Napodano, CFA

PROJECTED FINANCIALS

Cipher Pharmaceuticals Inc. Income Statement

Model in Canadian Dollars (IFRS)	2010 A	2011 A	Q1 A	Q2 A	Q3 A	Q4 E	2012 E	2013 E	2014 E	2015 E
Lipofen Net Revenues	\$5.0	\$2.2	\$1.4	\$0.9	\$1.3	\$1.0	\$4.6	\$4.4	\$4.6	\$1.0
<i>CIP-Fenofibrate YOY Growth</i>	61.3%	-56.0%	133.3%	-	-	-	109.1%	-4.3%	4.5%	-78.3%
CIP-Tramadol-ER Net Revenues	\$0	\$0.8	\$0.3	\$0.4	\$0.3	\$0.5	\$1.5	\$3.0	\$5.8	\$7.3
<i>CIP-Tramadol-ER YOY Growth</i>	-	-	-	-	-	-	87.5%	100.0%	93.3%	25.9%
CIP-Isotretinoin Net Revenues	\$0.4	\$0.6	\$0.1	\$0.3	\$0.5	\$0.7	\$1.6	\$5.6	\$8.4	\$13.0
<i>CIP-Isotretinoin YOY Growth</i>	300.0%	50.0%	-	-	-	-	160.0%	259.0%	50.0%	54.8%
Betesil Patch (Net Sales)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$1.0	\$2.0	\$4.0
<i>CIP-Isotretinoin YOY Growth</i>	-	-	-	-	-	-	-	-	100.0%	100.0%
Total Revenues	\$5.385	\$3.569	\$1.811	\$1.629	\$2.118	\$2.2	\$7.7	\$14.0	\$20.8	\$25.3
<i>YOY Growth</i>	69.4%	-33.7%	168.3%	124.1%	89.1%	106.3%	114.6%	82.8%	48.6%	21.6%
Operating, General & Admin	\$3.779	\$3.186	\$1.016	\$0.861	\$0.799	\$0.8	\$3.5	\$4.5	\$4.8	\$5.2
<i>% SG&A</i>	70.2%	89.3%	56.1%	52.9%	37.7%	38.2%	45.7%	32.1%	23.1%	20.6%
Research & Development	\$0.743	\$2.205	\$0.471	\$0.348	\$0.335	\$0.3	\$1.5	\$1.5	\$2.0	\$2.0
<i>% R&D</i>	13.8%	61.8%	26.0%	21.4%	15.8%	15.7%	19.5%	10.7%	9.6%	7.9%
Amortization & Depreciation	\$0.757	\$0.578	\$0.225	\$0.245	\$0.230	\$0.2	\$0.9	\$0.8	\$0.7	\$0.6
Operating Income	\$0.106	(\$2.400)	\$0.099	\$0.175	\$0.754	\$0.8	\$1.7	\$7.2	\$13.3	\$16.5
<i>Operating Margin</i>	-	-67.2%	-	-	-	-	22.5%	51.4%	63.9%	65.2%
Interest & Other Net	\$0.066	\$0.089	\$0.026	\$0.035	\$0.000	\$0.0	\$0.1	\$0.1	\$0.1	\$1.1
Pre-Tax Income	\$0.172	(\$2.311)	\$0.125	\$0.210	\$0.754	\$0.8	\$1.8	\$7.3	\$13.4	\$17.6
Taxes / Other	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$2
<i>Tax Rate</i>	0%	0%	0%	0%	0%	0%	0%	0%	0%	10%
Net Income	\$0.172	(\$2.311)	\$0.125	\$0.210	\$0.754	\$0.8	\$1.8	\$7.3	\$13.4	\$15.8
<i>YOY Growth</i>	-	-	-	-	-	-	-179.0%	-415.9%	634.2%	117.0%
Reported EPS	\$0.01	(\$0.10)	\$0.01	\$0.01	\$0.03	\$0.03	\$0.07	\$0.29	\$0.53	\$0.61
<i>YOY Growth</i>	-	-	-	-	-	-	-178.4%	-406.0%	602.8%	108.6%
Shares Outstanding	24.1	24.2	24.4	24.4	24.4	24.5	24.4	25.0	25.5	26.0

Source: Zacks Investment Research, Inc.

Jason Napodano, CFA

HISTORICAL ZACKS RECOMMENDATIONS

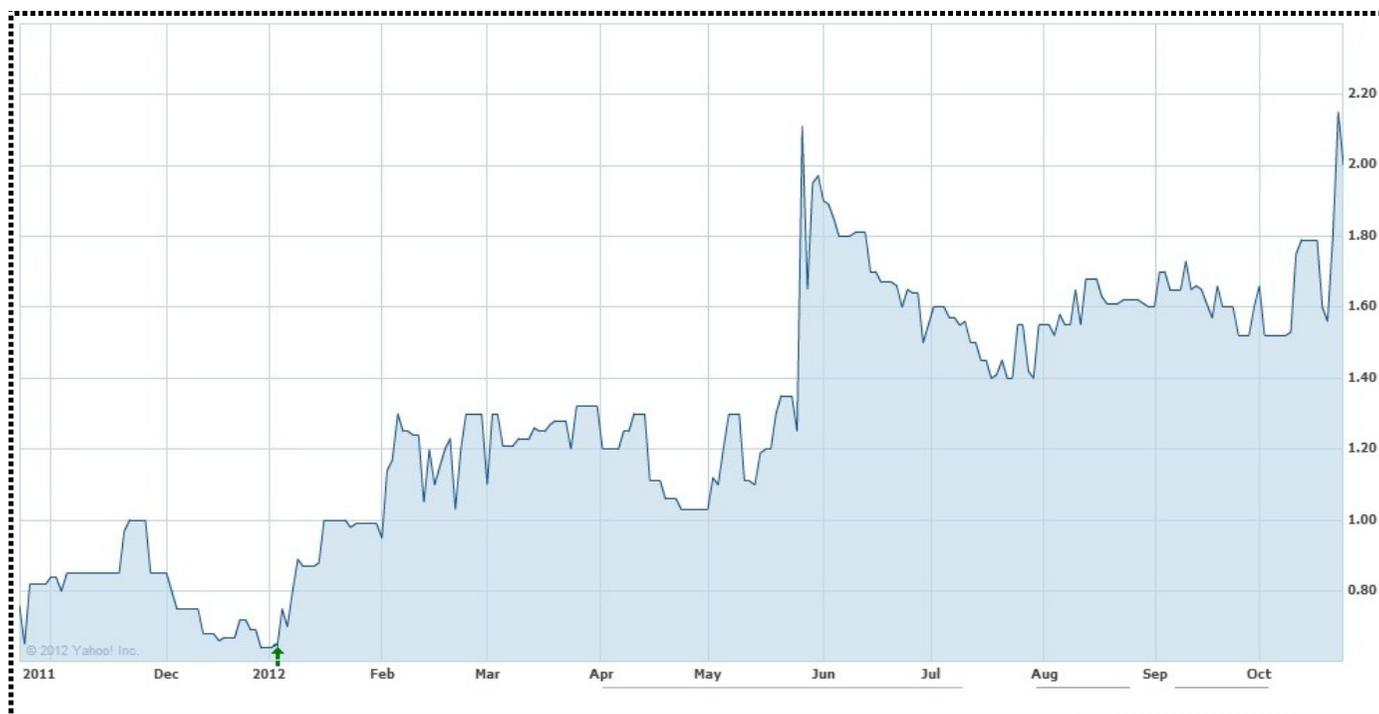


Chart Generated by Yahoo! Inc.

↑ Buy

↔ Hold

↓ Sell

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