

INITIATION REPORT

Cipher Pharmaceuticals Inc.

TSX: CPH · OTCQX: CPHRF

A 60%-margin cash machine, deleveraged to net cash, trading at ~10x earnings — waiting on one deal.

Cipher is a profitable specialty-pharma business that doubled its revenue and earnings in a single year, paid off \$35M of debt to reach a net-cash position, and now trades at roughly ten times earnings. The market is treating it as a no-growth stock. The real question is narrower and more interesting: what happens when a debt-free company with \$85M of firepower finally puts its cash to work.

PRICE	TARGET	UPSIDE	RATING
~C\$16.17	C\$21.00	+30%	BUY

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June 2026

Investment Thesis

Cipher Pharmaceuticals is the rare small cap that did everything right and got a shrug from the market. In 2025 it doubled — revenue up 51% to US\$50.5M, net income up 137% to US\$27.3M — and it used the cash to pay off US\$35M of debt, ending the year in a net-cash position. It earns roughly a 60% net margin, generates real free cash flow, and trades at about ten times trailing earnings. On paper, that is a profitable, debt-free, cheap compounder. So why is it sitting near the low end of where it should trade?

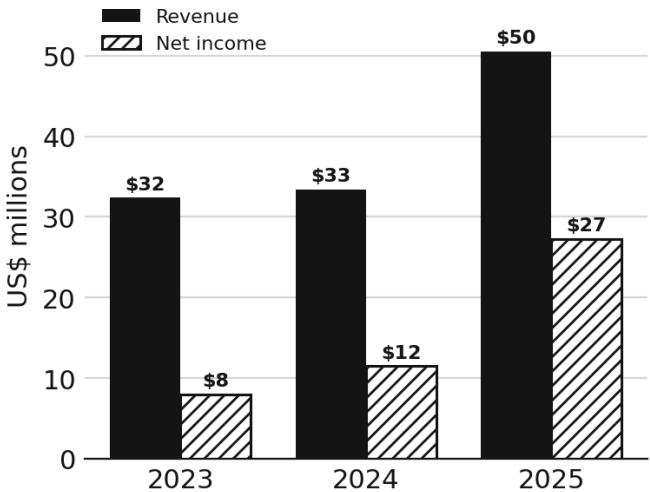
Because the doubling is over, and the market knows it. The 2025 leap came from acquiring the U.S. Natroba business in mid-2024 and annualizing it. Now that it's lapped, the underlying growth is slow — Q1 2026 revenue rose just 4%, with Natroba up 3% and the Canadian base roughly flat. So the market has repriced Cipher from “explosive growth” to “no growth,” and parked it at a single-digit-ish multiple. That repricing is fair on the surface. The opportunity is in what it ignores.

What it ignores is the balance sheet and the mandate. Cipher is now debt-free, generating cash every quarter, sitting on cash plus roughly US\$85M of available financing — and management has been explicit and repeated that it is hunting for an acquisition to provide “further size and scale.” This is not a melting ice cube. It is a profitable, cash-generative platform with a deleveraged balance sheet, a stable base business, and a stated plan to redeploy capital. You are being paid a ~10x multiple to own the cash machine while you wait for it to do the obvious thing.

I am initiating Cipher at BUY with a 12-month target of C\$21.00, roughly +30% from current levels, in line with the high end of analyst estimates and supported by the valuation work below. The honest framing: this is a capital-allocation story, not a hyper-growth one. The bull case is that the base business holds, the Canadian Natroba launch adds a leg, and an accretive acquisition re-rates the whole company. The bear case — product concentration and a deal that may take time or disappoint — is real, and I treat it squarely. But at ~10x earnings with net cash and a clear catalyst, the asymmetry favours the patient owner.

Cipher Pharmaceuticals — a deleveraged cash machine

Revenue +51%, net income +137% (FY2025)



KEY METRICS

~C\$409M	Market capitalization
~10x	Trailing P/E
60%	2025 net margin
Net cash	7Mcash > 5M debt
\$35M	Debt repaid in 2025
None	Dividend (buybacks instead)

What Cipher Actually Does

Cipher is a specialty pharmaceutical company that acquires, develops, and markets niche drugs, mostly in dermatology, across Canada, the United States, and South America. It doesn't discover molecules from scratch; it buys or licenses products that fill real medical needs, handles the regulatory and commercial work, and collects the cash. Think of it as a focused, capital-light drug-marketing platform rather than a research-and-development gamble. Three pieces matter.

Natroba — the U.S. growth engine

Acquired in mid-2024, Natroba (spinosad) treats head lice and scabies in the U.S. market, and it transformed the company. U.S. revenue jumped from US\$12M in 2024 to US\$30M in 2025. It runs at an ~87% gross margin and contributed US\$4.4M of adjusted EBITDA in Q1 2026 alone (up 30% year-over-year). The bull case for Natroba is share gains against the incumbent permethrin treatments, which are losing efficacy, plus a direct-to-consumer push. This is the most important asset in the company.

The Canadian portfolio — the dependable base

Led by Epuris (isotretinoin, for severe acne), the Canadian product portfolio is the steady, cash-generative foundation. It posted its third consecutive quarter of sequential growth in Q1 2026 at C\$4.5M. It won't shoot the lights out, but it's reliable, profitable, and it underwrites the whole operation while Natroba and M&A drive the upside.

Licensing and the pipeline kicker

Cipher also collects licensing revenue on out-licensed products (Absorica, ConZip, Lipofen), which grew 52% in Q1. And there's a near-term catalyst: Health Canada has accepted the new drug submission for Natroba in Canada, opening a second geography for the company's best product. It's not in the numbers yet, which is exactly why it's optionality.

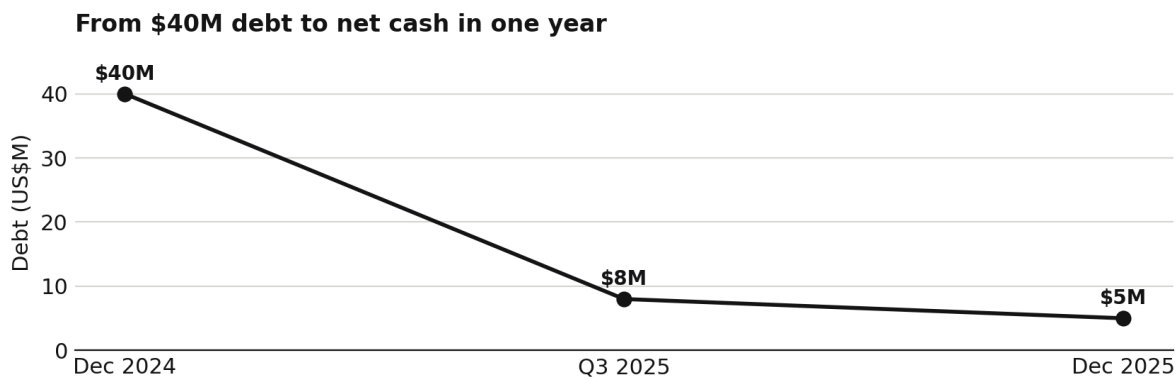
Why It's Cheap — The Information Gap

The mispricing is a story about what the trailing numbers say versus what the forward setup is. Here's the precise picture.

The 2025 results look spectacular — revenue +51%, net income +137% — and a screener sees a stock that doubled its earnings trading at ~10x. But the experienced eye sees the catch: that growth was the Natroba acquisition annualizing, not organic momentum. Confirm it in Q1 2026: total revenue grew just 4%, Natroba 3%, and the Canadian base actually slipped 2%. So the market did the rational thing and repriced Cipher from a growth multiple to a no-growth multiple. On that basis, ~10x for a low-single-digit grower isn't obviously cheap — it's roughly fair.

The gap is what that framing misses. First, this is a ~60%-net-margin, genuinely cash-generative business — not a fading one. Second, it just executed a textbook deleveraging, paying off US\$35M to go from US\$40M of debt to net cash in a single year, which means all that cash flow now accrues to owners rather than lenders. Third, and most important, management has a stated, funded mandate to acquire — “further size and scale” — with roughly US\$85M of available financing on top of its cash.

The market is pricing Cipher as a static, no-growth drug portfolio. It is actually a debt-free acquisition platform that happens to throw off cash while it waits. That's the gap.



Revolving credit drawn down to net cash. Source: company filings.

The Catalyst: Capital Allocation

Cipher's story from here is almost entirely about what it does with its balance sheet. The pieces are lined up.

It is buying back its own stock, it repurchased shares under its NCIB through 2025 (US\$5.4M worth), shrinking the share count and signalling management thinks the stock is cheap. That alone supports per-share value. But the bigger lever is M&A: management has said, on the record and repeatedly, that it is “dedicating a great deal of time identifying, evaluating and pursuing” acquisitions to add scale, while being selective. With net cash and ~US\$85M of financing available, an accretive deal would add a new earnings stream to a company already trading cheaply, the kind of move that re-rates the whole multiple, not just the earnings.

The risk in that sentence is the word “selective.” A disciplined acquirer that waits for the right deal is exactly what you want as an owner — but it means the catalyst may take time, and the cash sits idle until it lands. That's the trade: you're paid to wait via a cheap multiple and a base business that funds itself, in exchange for patience on the deal. Layer in the Canadian Natroba launch as a second, nearer catalyst, and there are two distinct ways the story moves forward.

Financial Snapshot

Metric	Value	Note
Share price	~C\$16.17	52-wk range ~C\$11–C\$19+
Market cap	~C\$409M	~25.3M shares
FY2025 revenue	US\$50.5M	+51% YoY
FY2025 net income	US\$27.3M	+137% YoY; ~60% margin
Q1 2026 revenue	US\$12.5M	+4% YoY (organic slowdown)
Q1 2026 net income	US\$6.2M	margin ~49%
Q1 2026 adj. EBITDA	US\$7.7M	+25% YoY

Cash / debt	US\$6–7M / US\$5M	net cash position
Available financing	~US\$85M	dry powder for M&A
Trailing P/E	~10x	cheap for the quality
Dividend	None	capital returned via buybacks

The numbers that matter: a ~60% net margin and net cash. Cipher converts revenue to profit at a rate few businesses of any size achieve, and it now owes no one. The slow top-line is the price of admission; the cash generation and the clean balance sheet are the reason to own it.

Valuation Framework

Cipher can be valued three ways, and they converge. I anchor the work in earnings power, cash, and what an acquisition could add.

Method 1 — Earnings multiple on a quality business

Cipher earns ~US\$27M (roughly C\$37M) net on a ~60% margin, with net cash. A profitable, debt-free specialty-pharma business with an 87%-gross-margin flagship product should not trade at ~10x. Analysts model a forward P/E in the high-teens (~17–18x) given the margin and cash profile. Even a conservative 13–14x multiple on normalized earnings, a discount to peers for the slow growth — supports a price in the low-to-mid C\$20s. The current ~10x is pricing in decline that the cash flows don't show.

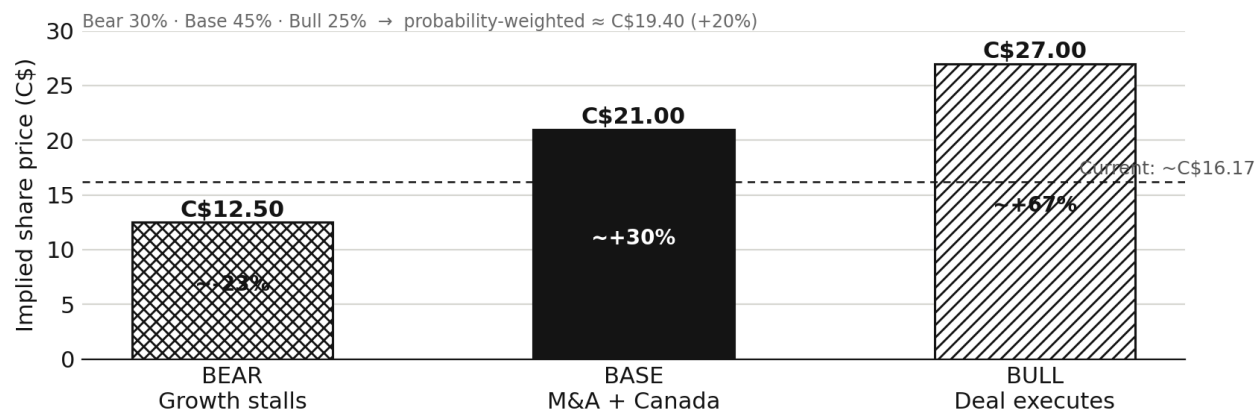
Method 2 — Net cash plus cash-flow yield

Strip out the net cash and the operating business is even cheaper than the headline multiple suggests. On the cash Cipher generates and its net-cash balance sheet, the free-cash-flow yield is high for a business this profitable, you're collecting a rich cash return on the operating engine while the buyback shrinks the share count beneath you. This method frames the downside: net cash plus a 60%-margin base business puts a hard floor under the stock.

Method 3 — Optionality on capital deployment

This is where the upside lives, and it's why the stock is worth more than a static multiple implies. Cipher has the cash and ~US\$85M of financing to acquire. An accretive deal — buying another cash-generative specialty product at a sensible price, would add an earnings stream and likely re-rate the multiple as the market re-recognizes Cipher as a growing platform rather than a static portfolio. You're not paying for this optionality at ~10x; you're getting it close to free.

Triangulation: the methods cluster in the low-to-mid C\$20s. I set the base target at C\$21.00 (~+30%), consistent with the high end of the analyst range, with the net cash and base business bounding the downside and capital deployment driving the upside.

Valuation scenarios — probability-weighted**Valuation Assumptions**

Assumption	Bear	Base	Bull
Normalized EPS (C\$)	~C\$1.30	~C\$1.50	~C\$1.60
Earnings multiple	~9.5x	~14x	~17x
Implied price	~C\$12.50	~C\$21.00	~C\$27.00
Return vs current	~-23%	~+30%	~+67%
Probability weight	30%	45%	25%

Probability-weighted target ≈ C\$19.40 (~+20%). The bear weight is deliberately high — a no-growth, no-deal scenario is a real possibility, and the honest case accounts for it.

Bear Case (30%) — ~C\$12.50

The base business flatlines, Natroba growth stalls against competition, no acquisition materializes (or a poor one does), and the market holds Cipher at a no-growth multiple. The net cash limits the downside, but a story stock with idle cash and no catalyst can stay cheap for a long time. This is the scenario to respect.

Base Case (45%) — ~C\$21.00

The Canadian portfolio stays stable, Natroba holds its U.S. share, the Canadian launch adds a modest leg, buybacks continue, and the multiple drifts up toward a fairer level for a 60%-margin net-cash business — even before a transformative deal.

Bull Case (25%) — ~C\$27.00

Cipher lands an accretive acquisition at a sensible price, the Canadian Natroba launch succeeds, and the market re-rates the company as a growing, cash-rich platform rather than a static portfolio. Earnings step up and the multiple expands at the same time — the double-lever that drives outsized returns.

Risks and What Could Break the Thesis**Product concentration — the core risk**

Natroba plus a handful of derm products are the company. If Natroba faces a generic, a competitive launch, or a reimbursement change, the impact is outsized because there's little to cushion it. The entire growth thesis leans on one U.S. product taking share and one Canadian launch landing. This is the single biggest risk and the reason the multiple is low — it's not irrational, it's the price of a concentrated portfolio.

Capital-allocation risk

The bull case depends on management deploying its cash well. A value-destructive acquisition — overpaying, or buying a declining asset, would be worse than sitting on the cash, and would break the thesis. “Selective” cuts both ways: it protects against bad deals but means the catalyst could be slow, leaving the cash idle and the stock range-bound.

Growth and re-rating risk

Organic growth is genuinely slow right now. If it stays slow and no deal arrives, there's no obvious reason for the multiple to expand, and “cheap” can persist. Being right on the valuation doesn't force the market to agree on any particular timeline.

Leadership and currency

Cipher is run by an interim CEO, which adds a layer of uncertainty to the M&A mandate the thesis relies on. And the business reports in U.S. dollars while the stock trades in Canadian dollars, so currency moves can affect the translated figures independent of operating performance.

Rating, Target, and Exit Criteria

The Venture Analyst initiates coverage on Cipher Pharmaceuticals (TSX: CPH) with a BUY rating and a 12-month target of C\$21.00, ~+30% upside from ~C\$16.17, with a probability-weighted target near C\$19.40. The case: a ~60%-margin, net-cash, cash-generative business at ~10x earnings, with a stated capital-deployment catalyst and a Canadian product launch — downside bounded by cash and the base business, upside driven by M&A and a re-rating.

Exit Criteria — Stated Before the Stock Moves

Rating moves to Hold if the stock approaches C\$21 without a value-accretive acquisition or clear progress on the Canadian launch.

Rating moves to Sell if management deploys cash into a deal that looks value-destructive, or if Natroba U.S. revenue declines for two consecutive quarters on competition.

Rating is reviewed if the base business (Canadian portfolio + Natroba) shows sustained organic decline rather than the current flat-to-slow profile.

Rating is reviewed if the cash is left idle with no deal and no buyback acceleration over several quarters — a sign the capital-allocation thesis isn't playing out.

The Honest Take

Cipher is a quiet, unglamorous business that did the hard, boring things right — it bought a good product, integrated it, doubled its earnings, and paid off all its debt — and the market thanked it by

repricing it as if the story were over. It isn't over; it's between chapters. The first chapter (acquire Natroba, deleverage) is done. The second (deploy the cash, launch in Canada) hasn't started in the numbers yet.

I want to be clear-eyed about what this is. It is not a fast grower — organic growth is genuinely slow, and if no deal comes and the base stays flat, the stock can sit. The product concentration is real and is the right reason to size the position with care. But you're buying a 60%-margin, net-cash, cash-generative business at ~10x earnings, with a stated catalyst and a floor under it. That's a favourable setup for a patient owner: limited downside, a free option on capital deployment, and a management team telling you exactly what it intends to do next.

BUY. Target C\$21.00. A cash machine waiting on a catalyst — and you're paid to wait. Exit criteria stated.

Disclosures

Financial data verified from Cipher Pharmaceuticals' FY2025 and Q1 2026 results and current market data to June 2026. Figures are reported in U.S. dollars unless otherwise noted; the stock trades in Canadian dollars. Prices approximate as of June 2026 and must be confirmed against live data before any decision. Valuation targets are analytical estimates derived from the stated assumptions and are not guarantees.

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