AFT pharmaceuticals

Market Release **November 21, 2019**

FINANCIAL RESULTS FOR HALF YEAR ENDED 30 SEPTEMBER 2019

AFT earnings rise in line with guidance

Performance Highlights

- **Operating Revenues** increase 22% to $46.9 million with strong growth in all markets.
- **Operating Profits** of $13.7 million for the six months following on from the $6.1 million operating profit for the full year ended 31 March 2019, with all markets now generating operating profits.
- **Gain on acquisition** of $9.8 million arising from the gain on the acquisition of the *Pascomer* intellectual property included in the Operating Profit.
- **Cash balance** improves to $7.3 million.
- ***Maxigesic* pain relief registrations** up to 44 territories for the oral formulation and 2 territories for the intravenous formulation, in New Zealand and the key Australian market.
- **Debt refinance** negotiations well advanced with local banks having provided indicative term sheets with significant interest cost savings.
- **Operating profit forecast** for the year to 31 March 2020 to rise to between $18.8 - $21.8 million taking account of the Pascomer gain.

AFT Pharmaceuticals (NZX; AFT, ASX; AFP) today announces continued growth in earnings amid rising sales of its over the counter (OTC) medicines in Australasia and its patented *Maxigesic* pain relief medicine in global markets.

Group operating revenue for the six months to 30 September 2019 grew by 22% to $46.9million from $38.4 million in the same period a year ago with its largest market, Australia growing revenue by a strong 19%, New Zealand by 9%, Southeast Asia by 112% and the Rest of World by 64%.

Group operating profit for the six months to 30 September 2019 was $13.7 million up from a loss of $0.1 million in the same period a year ago. As signalled earlier this month, the result was bolstered by the non-recurring gain on acquisition of the joint venture Dermatology Specialty Limited Partnership (DSLP) of $9.8 million.

Group net profit before tax (NPBT) rose to $9.9 million from a loss of $4.2 million in the same period a year ago. Stripping out the DSLP gain NPBT was $0.1 million against a loss in the same period a year ago of $4.2 million.

Chair David Flacks said: "AFT has delivered another strong result. The rise in operating earnings confirms our strategy to expand our presence in our home markets of

Australia, New Zealand and Southeast Asia and grow our international revenues through the out licensing of our intellectual property.

"This growth, coupled with moves to improve our financial strength through the refinancing of our debt, position AFT to strongly grow shareholder value."

Founder and Managing Director Dr Hartley Atkinson said: "We are pleased with the progress we have made. As foreshadowed last year, all divisions of the company - Australia, New Zealand, Asia and International – are now contributing to group operating earnings.

"Our home markets of Australia and New Zealand continue to grow strongly. Following the sale of the lower margin hospital products to Baxter Healthcare, the restructuring of our product portfolio in these markets is now largely complete. We are now investing for growth with the addition of new medicines to our in-licensed portfolio that have the potential to lift sales considerably in the coming years.

"Sales from outside Australasia continue to grow as a proportion of our business, now reaching $7.6 million representing 16% of group sales and up from 11% in the same period a year ago.

"We see further significant growth in *Maxigesic* sales in the second half of 2020 financial year and into next financial year as the number of countries in which the medicine is launched increases. We see an even sharper acceleration in following years as sales in all these countries build and we add additional dose forms.

"Meanwhile, our pipeline of development opportunities continues to show promise. We are looking to the future with confidence as we continue to execute on our plans."

Financial performance

Group Operating Results NZ$'000	Six Month Period Ended September 30		Change ($)	Change (%)
	FY2020	FY2019		
Revenue	**46,946**	**38,441**	**+ 8,505**	**+ 22**
Cost of Sales	(25,598)	(20,292)	+ 5,306	+ 26
Gross Profit	**21,348**	**18,149**	**+ 3,199**	**+ 18**
Other Income	336	2,034	- 1,698	- 83
Selling and distribution expenses	(12,938)	(14,234)	- 1,296	- 9
General and administrative expenses	(4,536)	(3,489)	+ 1,047	+ 30
Research and development expenses	(223)	(2,225)	- 2,002	- 90
Equity Accounted Loss of joint venture entity	(81)	(344)	- 263	- 76
Gain on disposal of joint venture interest	9,785	-	+ 9,785	+ +
Operating Profit / (Loss)	**13,691**	**(109)**	**+13,800**	**+ +**

Gross Profit grew 18% to $21.3 million, driven by revenue growth in all markets. The gross profit margin fell 1.7 percentage points to 45%. This reflected relatively strong revenue growth in the hospital channel, which attracts lower gross profit margins, but also has lower selling and distribution expenses.

Other Income of $0.3 million was down from $2.0 million in the prior year. It includes fees we received on the divestment of some unused product registrations in Asia and the *Callaghan Innovation* growth grant that we receive on eligible research and development expenditure. The larger amount last year relates to the one-off fees we received from the divestment of non-core hospital products.

Selling and Distribution expenses fell 9% to $12.9 million from $14.2 million in the same period last year. We benefited from efficiencies in Australia, New Zealand and Southeast Asia and revenue growth in the Rest of World where licensees carry these costs.

Selling and distribution expenses now represent 27% of revenue, down from 37% in the same period a year ago. We expect these expenses as a proportion of total revenue to continue to fall as revenue from the Rest of World grows.

General and Administration expenses increased to $4.5 million from $3.5 million in the same period a year ago due to one off legal fees in Australia relating to competitor legal action that challenged certain *Maxigesic* claims. The marketing claims currently in use have maintained our market share lead in the category and AFT remains confident of its legal position.

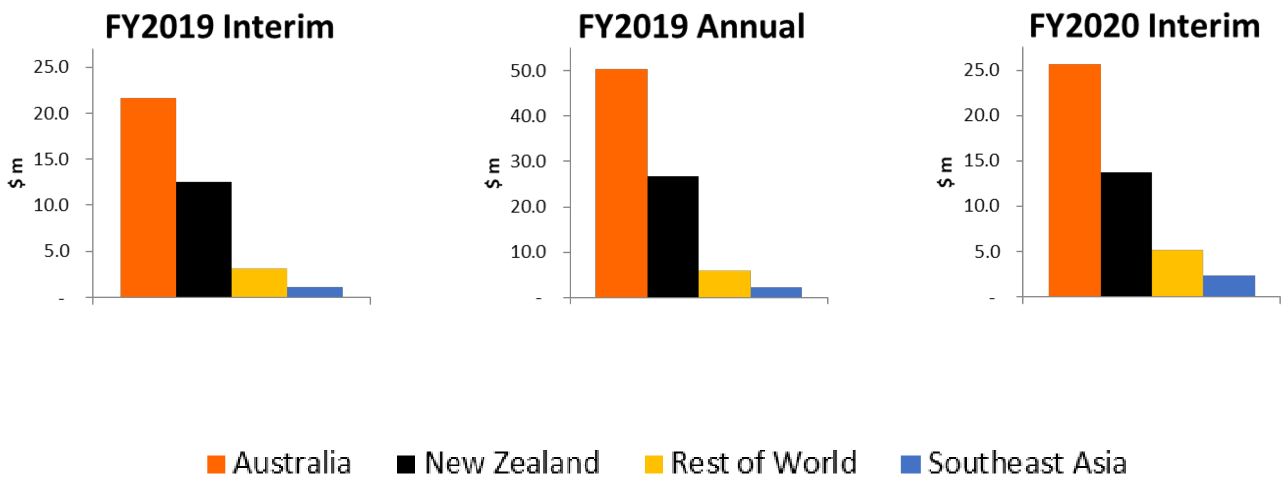
Research and development expenses fell to a net $0.2 million with the successful completion of the major clinical trial programme identified at the IPO in December 2015. R&D expenses were also reduced by one-off $1.7m contributions from joint venture partners resulting from the successful development results.

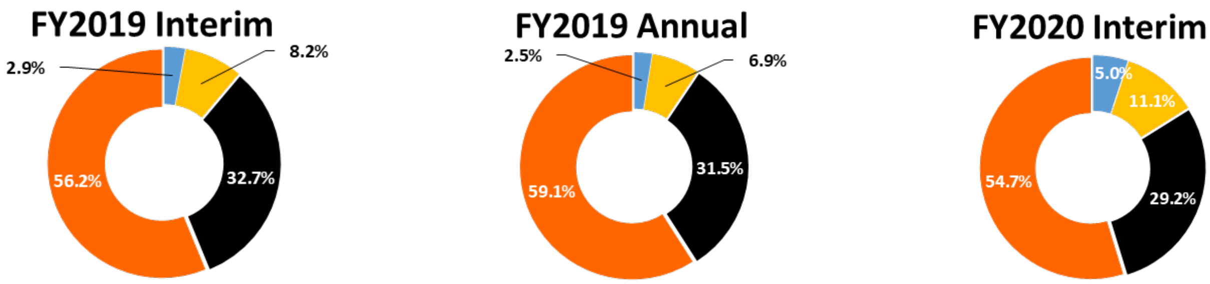
AFT is continuing to carefully run its Research and Development budgets to stay within profit targets. These efforts have been bolstered by agreements for *Maxigesic* IV and Pascomer that recover Research and Development costs from partners, effectively minimising risk, and the impact of the associated spend on AFT.

Despite the reduced expenditure we have not cut back on development work, instead those costs are now being shared with our partners.

The gain on acquisition of intellectual property of $9.8 million arises from the recognition at acquisition of the *Pascomer* IP assets at their assessed fair value of $12.5 million. The future development costs for *Pascomer*, which had previously been accounted for under equity accounted expenses of the joint venture entity, will now be borne by the North American Licensee.

REGIONAL PERFORMANCE





Australian Revenue grew by 19% to $25.7 million from $21.6million in the same period a year ago and represented 55% of Group Operating Revenue. Operating profits rose to $1.9 million from a $0.1 million loss in the same period a year ago.

The OTC channel grew at 18% to generate 60% of total Australian revenue.

Maxigesic sales grew and it maintains its leadership of the ibuprofen-paracetamol combination section of the pain management market.

Our eyecare range delivered strong growth from its existing products and benefited from new products including *Novatears* launched last year and *Optisoothe* launched at Easter.

We now occupy the number two position in the lubricating eyecare category in Australia.

The Hospital channel grew 25% to generate total sales of $7.6 million. It benefited from the launch of new products particularly in the injectables market. The Prescription channel grew at 9% also with the launch of new products.

New Zealand revenue grew by 9% to $13.7 million from $12.6 million in the same period a year ago and represented 29% of Group Operating Revenue. Operating profit grew to $1.7 million from a profit of $0.8 million in the same period a year ago.

The OTC channel grew at 17% to $7.4 million from $6.3 million at the same time a year ago. The standout categories in the New Zealand market were natural medicines and digestive health, both of which benefited from the launch of new products.

The Hospital channel declined by 10% to $1.9 million due to tender price reductions and the temporary loss of product due to supplier changes. However, this channel is expected to return to growth next year with new products.

The Prescription channel grew at 7% to $4.4 million in line with the introduction of new products.

Southeast Asia Revenue grew by 112% to $2.4 million from $1.1 million in the same period last year and now generates 5% of Group Operating Revenue. Operating profits rose to $0.1 million from a loss of $0.2 million in the same period last year.

The main Hospital channel grew at 240% with the launch of two new products in Singapore and Malaysia. Revenues in the OTC channel did not grow in the period due to the initial *Maxigesic* launch sales into Hong Kong and Malaysian distributors in the prior financial year for their respective launches. We expect these distributors to place new orders in the second half.

Rest of World revenue grew by 64% to $5.2 million from $3.2 million in the same period a year ago and represents 11% of Group Operating Revenue. Operating profits rose to $10.1 million and includes the one-off $9.8 million gain in the DSLP business.

Maxigesic product sales and royalty income from existing markets, together with new markets in the Nordics, Spain and Portugal generated approximately half the revenue in the segment. The other half came from *Maxigesic* and *Pascomer* licence income and includes a combination of upfront and other payments for the achievement of regulatory approvals and other commercial milestones.

AFT this year booked its first sales milestone payment from one of our licensees in Europe for achieving market sales targets. Milestone payments will increase and are set to make a significant contribution to revenue in future years.

Maxigesic sales in the Rest of World are relatively flat compared with the first half of the prior year but we expect growth to pick up as many sales orders are loaded into the second half of the 2020 financial year. Steady progress is being made with securing out-licensing and distribution agreements.

MAXIGESIC COMMERCIALISATION

Maxigesic tablets are now being sold in 24 countries[1], up from 20 at the end of the 2019 financial year.

Product	*Maxigesic* Tablets		*Maxigesic* IV		*Maxigesic* oral solution	
Territories	2020	2019	2020	2019	2020	2019
Licensed	125+	125+	70	68	122	122
Registered	44	42	2	-	-	-
Sold	24	20	-	-	-	-

[1] Countries include Australia, Brunei, Denmark, El Salvador, Finland, Guatemala, Hong Kong, Israel, Iraq/Kurdistan, Ireland, Italy, Macau, Malaysia, Malta, Portugal, New Zealand, Nicaragua, Norway, Serbia, Singapore, Spain, Sweden, United Kingdom and United Arab Emirates.

We anticipate launches of *Maxigesic* tablets in twelve markets will occur in the second half of this financial year. We have received launch orders and had expected several to have already occurred, but they have been delayed for primarily regulatory reasons.

We have signed four additional *Maxigesic* tablet licensing or distribution agreements over the last six months in Chile, Columbia, Germany and Peru. Ongoing discussions continue in significant markets such as Brazil and Canada.

Meanwhile, momentum is building with further Maxigesic IV Distribution Agreements signed in Pakistan and Vietnam, lifting the number of territories in which it has been licensed to 70.

Discussions to out-license both the tablet and intravenous dose forms of Maxigesic for the USA, China, and Japan, the top three pharmaceutical markets in the world, are continuing.

PRODUCT DEVELOPMENT

Maxigesic

The majority of the *Maxigesic* clinical trial programme has now been completed. The first two global registrations of *Maxigesic IV*, in Australia and New Zealand, were achieved earlier this year. Our hospital team is now preparing for the launch of *Maxigesic IV* in Australia in the second half of the 2020 financial year.

The Australian registration is particularly important as the country acts as a reference for several other countries.

An additional clinical study is currently underway for a USA filing, with multiple study sites in the USA and New Zealand. We are targeting the completion of this study during this financial year to allow filing in the USA. Further clinical work is planned for additional major markets including China and Japan which have now been identified as targets for *Maxigesic IV*. The studies will be funded by the licensee. These countries were not originally envisaged as potential markets, so it further expands the scope for *Maxigesic* beyond that previously thought possible.

We continue to develop line extensions to strengthen and build the *Maxigesic* product franchise in Australia and New Zealand and further afield.

New regulatory filings will commence as planned this calendar year for *Maxigesic Hot Drink Sachets.* Final development work also continues on *Maxigesic Dry Stick Sachets* and the first filing of *Maxigesic Rapid* is planned in the next calendar year.

New developments identified last year are now well underway with *Maxigesic Cold & Flu* well advanced. A further patent for the key Australian market has been in-licensed during the first half to create an additional *Maxigesic* line extension.

Pascomer

The development programme for our drug *Pascomer,* a topical formulation of Rapamycin being developed for facial angiofibromas in tuberous sclerosis complex, is now well underway.

We have commenced a large multi-centre international study with sites in New Zealand, Australia, and the United States. All these sites have opened for enrolment, and further sites in Spain, the United Kingdom and Eastern Europe are due to start before the end of this calendar year.

Under the terms of the innovative licensing agreement we signed earlier this year, all *Pascomer* Research and Development expenditure is now recovered from our north American development partner, Timber Pharmaceuticals. As part of this agreement we also took full control of the original JV partnership, a move that crystallised the gain of $9.8 million.

We see this agreement as a good example of the creative approach we take to out-licensing and developing our technologies. The agreement allows us to benefit from the considerable upside of our technology but limits the financial risks that come with investment into research and development.

We are excited about the potential for *Pascomer.* Clinical data covering more than 400 patients demonstrates the effectiveness for Rapamycin and this in turn reassures us that the development risk is not high. Meanwhile, as previously indicated the medicine has the potential to generate annual revenues for AFT in excess of $100 million, assuming successful development.

NasoSURF

The development programme for *NasoSURF,* a nasal drug nebuliser, continues with manufacture of engineering batches underway following the post Human Factor Studies redesign undertaken last Financial Year. Class II filing is expected in the next calendar year.

Market research had already identified that the *NasoSURF* project also represents a significant commercial opportunity. We expect to make regulatory pharmaceutical filings late in the 2021 financial year.

Australasian markets.

Following the divestment of some lower margin hospital products in the 2019 Financial Year, AFT has focused on in-licensing new products to take advantage of the strong growth potential we see in these markets.

We are targeting the introduction of new medicines, which are focused in eyecare, pain and Hospital, over the next three years. Although this is coming at the expense of upfront licensing and regulatory fees and additional staff costs, we believe the medicines have the potential to lift revenues significantly in the next five years.

Meanwhile, as announced in October, we entered into a Memorandum of Understanding with the Taupo-based SETEK to develop medical cannabis products for the Australian and New Zealand markets and potentially global markets.

We believe that SETEK is an excellent partner. The cooperation will combine SETEK's skills in producing cost competitive, organically certified cannabis with our expertise in product development and sales and marketing of pharmaceuticals. The costs to achieve this goal will be modest as they can be integrated into our existing drug commercialisation infrastructure.

Cash Flow and Balance Sheet

Total Assets of $83.2 million rose from $63.6 million at 31 March 2019 (referred to as PCP for this section) primarily due to the recognition of the fair value of the *Pascomer* IP assets and the right of use assets under the adoption of the new accounting standard for leases.

Working Capital remained steady at $28.1 million (PCP $28.0) with the increase in inventory to $26.8 million (PCP $25.2 million) and Receivables to $20.0 million (PCP $19.2 million) offset by a corresponding increase in payables to $18.7 million (PCP $16.4 million).

Cash holdings improved to $7.3 million (PCP $6.9 million) with the $6.1 million net cash inflow from operating activities offset by $2.8 million net cash out for investing activities, primarily capitalised development costs and $2.8 million net cash out for financing costs.

The CRG structured term loan has been reduced to $30.8 million following a refinancing of $15.0 million with a new BNZ facility. Both facilities mature on 31 March 2020 and we are well advanced in our negotiations with local banks for a new long-term re-financing facility, with indicative term sheets having been provided.

We expect considerable finance cost savings from these initiatives in the coming year. Our new facilities will attract interest rates significantly lower than 13.5% per annum rate payable underthe CRG facility. Meanwhile, we intend to use our positive cashflows to progressively reduce debt from the next financial year.

Outlook

As previously indicated, the timing of sales of *Maxigesic* in new territories remains difficult to determine due to a multitude of differing regulatory requirements and related timelines.

Additional launches are underway, and a significant number of new launch orders have been booked and these will continue to build more significantly in the second half of the 2020 financial year and beyond.

We continue to expect the combination of these sales, the one-off gain in the value of our DSLP venture and careful management of expenditure will allow us to deliver an operating profit for the year to 31 March 2020 of $18.8 million to $21.8 million.

For more information:

Investors:

Malcolm Tubby (CFO)
AFT Pharmaceuticals Ltd
Phone: +64 9 488 0232
Email: malcolm@aftpharm.com

Media:

Richard Inder
The Project
Phone: +64 21 645 643
Email: richard@theproject.co.nz

About AFT

AFT is a growing multinational pharmaceutical business with a broad range of products, both developed itself and in-licensed from third parties. AFT's products cover all major pharmaceutical distribution channels: over-the-counter, prescription and hospital. Historically, AFT's home markets have been Australia, New Zealand and South-East Asia. However, the company is out-licensing its own products to licensees and distributors to sell in an increasing number of countries around the world. The company's intensive Research and Development programme forms the basis of its international sales strategy. For more information about the company, visit our website www.aftpharm.com.