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AUDITED FINANCIAL RESULTS FOR THE YEAR TO 31 MARCH 2020

AFT Pharmaceuticals breaks through $100 million revenue and posts record earnings

Highlights

- Revenue increases 24% to $105.6 million with strong growth in all markets and in all sales channels
- Operating profit – including a $9.8 million non-recurring gain – rises to $21.2 million, the top end of guidance[1], from $6.1 million in the prior year
- Net profit after tax rises to $12.7 million from a loss of $2.4 million
- Operating cash flow rises to $14.9 million from the prior year's $1.1 million
- Momentum continues to build in the Maxigesic pain relief portfolio:
  - Maxigesic now licensed in 125 territories and registered in 44 territories up from 42 last year
  - Maxigesic tablets selling in 28 countries up from 20 last year; ten new territories poised to begin sales in the current financial year
  - Maxigesic Intravenous (IV) registered in three markets as at 31 March 2020 with a further 18 added since
- $43.2 million debt facility refinanced with Bank of New Zealand on significantly lower interest rates
- Operating profits for the year to 31 March 2021 are expected to rise to between $14.0 million - $18.0 million from the underlying operating profit of $11.4 million for this FY2020 year

[1] On 10 March 2020 AFT reiterated its guidance for an operating profit for the 12 months to 31 March 2020 of $18.8 million to $21.8 million which included the $9.8m non-recurring gain, and indicated the final result would be at the top end of this range.

AFT Pharmaceuticals (NZX:AFT, ASX:AFP) today reports a strong lift in revenue and earnings following sales growth and cost control in its diversified Australasian medicines business and growing international sales of its patented Maxigesic pain relief drug.

Revenue for the year to 31 March 2020 increased 24% to $105.6 million from $85.1 million in the prior financial year, with revenue growing strongly in Australia (up 22%), New Zealand (up 12%) and Asia (up 130%). The international business, which is focused primarily on the commercialisation of Maxigesic was up 55%.

Operating profit rose to $21.1 million, building on last year's $6.1 million operating profit by $15.0 million. The result included a non-cash $9.8 million non-recurring gain related to AFT taking full control of the Pascomer dermatological medicine[2] intellectual property.

Excluding the one-off gain, the underlying operating profit of $11.4 million represented an 86% improvement on the prior year's result and reflects continued sales growth, the return to more normalised research and development spending and careful management of costs throughout the business. Net profit after tax rose to $12.7 million from a loss of $2.4 million in the same period a year ago, demonstrating the operating leverage present in our business

AFT Pharmaceuticals Chairman David Flacks said: "The Board is delighted to report on an outstanding year. For the first time we broke through $100 million sales and delivered record earnings.

"Momentum has continued to build across our business in the last financial year. Our Australasian business continues to grow strongly extending a two-decade record of growth.

"Maxigesic continues to achieve key commercialisation milestones in international markets, with sales commencing in eight new countries in the past year. New dose forms of the medicine such as the intravenous formulation - Maxigesic IV - are also establishing a pipeline of opportunities that extend well into the future.

"Meanwhile, our South East Asia business moved into profit this year on the back of sales more than doubling in that region. Combined, these developments have driven strong improvements in operating earnings and cashflow and are setting the company up for continued growth."

AFT Pharmaceuticals Founder and Managing Director Dr Hartley Atkinson said: "All of AFT's operating divisions are performing well. We have achieved this growth while again maintaining tight control on costs. And, as foreshadowed last year, we delivered on the promised strong improvement in operating earnings.

"An important element in our success was our foresight in ramping up stock levels on a number of our key products ahead of the COVID19 pandemic arriving in Australasia.

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[2] The gain, as announced to the NZX and ASX on 4 November 2019, follows from the acquisition of the joint venture Dermatology Specialty Limited Partnership (DSLP) and arises from the recognition at acquisition of the Pascomer IP assets at their assessed fair value of $12.5 million.

These actions have significantly helped the company to navigate the initial impact of the virus in its Australian and New Zealand markets.

"We have also in-licensed a significant number of new products for our Australasian business and we expect them to make a strong contribution over the next few years, complementing the expected growth from our international business."

Summary Financial Results

	Year Ended 31 March 2020 $'000	2019 $'000
Revenue	**105,597**	**85,127**
Cost of Sales	57,332	44,397
Gross Profit	**48,265**	**40,730**
Other Income	535	2,237
Selling and distribution expenses	(26,203)	(26,540)
General and administrative expenses	(9,111)	(7,202)
Research and development expenses	(1,984)	(2,588)
Gain on acquisition of previously equity accounted joint venture entity	9,784	(521)
Operating Profit	**21,206**	**6,116**
Underlying Operating Profit *Adjusted for the $9,784 non-recurring gain on acquisition*	***11,422***	***6,116***

COVID19

We have seen unprecedented changes to our business in the wake of the COVID19 pandemic.

We have seen strong increases in sales for a number of our products including analgesics (Maxigesic), cold & flu medications (MaxigesicPE & Maxiclear), vitamins (Vitamin C Liposachets) and hospital antibiotics.

We have also begun to introduce some new products such as Crystawash (hand sanitiser), aimed at the post COVID19 environment to take advantage of changes we are seeing in consumer behaviour. These trends are likely to be enhanced by either the fear of, or actual cases of, reinfection across Australia and New Zealand.

A key challenge has been to maintain supply to our customers. Several competitors, particularly those in Australia, have frequently sold out of key products, enabling us to step in and offer an alternative.

In addition to the protective benefits that have come from pre-emptively increasing stock levels, our traditional reliance on sea freight has protected us from shortages in capacity and price increases in air freight that have followed in the wake of the pandemic.

As an essential business, we were able to operate throughout the Level 4 and 3 lockdown with a skeleton staff and the remainder were all fully operational using remote access. As we have always operated a highly mobile workforce, the move to remote working has not represented a major challenge to our staff nor systems.

Company sales in the first month of the new financial year are significantly ahead of the prior year, despite the sluggish retail environment. Sales in our Australian business have performed better than New Zealand as our team has still been able to visit some customers.

Against these gains, in excess of $1 million of export orders, including launch orders for 10 countries, were held up by the Indian Government restriction on the export of any products containing paracetamol. The export ban, which was imposed early in the crisis, has since been lifted. The sales have been deferred to the new financial year.

Fortunately, the ban did not impact local Maxigesic supplies as we also source the product from China and our manufacturing sites in that country have performed admirably throughout the pandemic.

Finally, some of our development work has been delayed by Covid19, including a study on Maxigesic IV specific to the registration of the product in the US and other studies related to our *Pascomer* treatment. Our NasoSURF nasal drug delivery device also saw delays to production and deployment.

AFT has not taken any government COVID19 related subsidies.

Whilst it is difficult to forecast with certainty the ongoing impacts from the pandemic, we have, to date, navigated it relatively well. Importantly, as we have seen over the more than two decades that AFT has been in existence, pharmaceutical products sell well in both good and bad economic times.

BALANCE SHEET

As at 31 March 2020, AFT retained a cash balance of $6.1 million, in line with the $6.9 million cash held a year ago. Total assets rose to $87.1 million from $63.6 million a year earlier and have increased primarily due to the acquisition of the *Pascomer* assets at their assessed fair value of $12.5 million and the company capitalising research and development expenditure

At the end of the financial year we refinanced CRG's loans with a three-year $43.2 million facility from Bank of New Zealand (BNZ). As at 31 March 2020 borrowings stood at $43.2 million against the $41.8 million at the same time a year ago.

The new BNZ facilities are at significantly more attractive terms and interest rates than the previous CRG loans such that we anticipate significant finance cost savings in the current and subsequent financial years.

In the 2020 financial year AFT used most of its $14.9 million operating cash flow to fund research and development and financing costs. In the current year, in addition to continuing to invest in the business the company will also be using cashflows to reduce debt.

RPS CONVERSION

CRG has given notice to AFT to convert all 2,600,000 redeemable preference shares in AFT (RPS) held by CRG. In accordance with the terms of the RPS, on 20 May 2020 the 2,600,000 RPS held by CRG converted into 2,600,000 ordinary shares in AFT and AFT issued a further 468,030 ordinary shares in AFT to CRG in respect of the accumulated dividends on those RPS. Following this conversion, 730,000 RPS remain on issue.

OUTLOOK

"We see significant potential for our products in both global and local markets. The timing is always difficult to forecast with certainty, but we are seeing pleasing progress with strong local sales growth and accelerating momentum in international markets," Dr Atkinson said.

"At the same time, we continue to develop and commercialise line extensions of the Maxigesic range and other products such as NasoSurf and Pascomer. Once achieved, all have the potential to generate significant shareholder value and improve healthcare outcomes for patients around the globe.

"Similar to last year, we have again progressed further down the pathway to realisation of this goal. But there is still a lot of work to do to reach our true potential and fully reward our shareholders.

"Despite all the present challenges, including the COVID19 pandemic, we are looking to the remainder of the 2021 financial year with confidence. We are targeting continuing positive cashflow and an operating profit of between $14.0 million - $18.0 million.

- Released for and on behalf of AFT Pharmaceuticals limited by Chief Financial Officer Malcolm Tubby

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About AFT Pharmaceuticals

AFT is a growing multinational pharmaceutical company that develops, markets and distributes a broad portfolio of pharmaceutical products across a wide range of therapeutic categories which are distributed across all major pharmaceutical distribution channels: over the counter (OTC), prescription and hospital. Our product portfolio comprises both proprietary and in-licensed products, and includes patented, branded and generic drugs. Our business model is to develop and in-license products for sale by our own dedicated sales teams in our home markets of Australia and New Zealand and in certain Southeast Asian markets, and to out-license our products to local licensees and distributors to the rest of the world.

AFT pharmaceuticals

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FY2020 MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion covers the performance across key segments and reviews progress in AFT's product development portfolio over the year to 31 March 2020.

AFT group revenue for the year to 31 March 2020 increased 24% to $105.6 million from $85.1 million in the prior financial year.

Operating profit rose strongly to $21.1 million from the prior year's $6.1 million. This result included a $9.8 million non-recurring gain on acquisition of the joint venture Dermatology Specialty Limited Partnership (DSLP). The gain arose from the recognition at acquisition of the *Pascomer* IP assets at their assessed fair value of $12.5 million.

Amid the strong revenue gains, operating costs, which exclude financing charges, rose by just 1% to $37.3 million from $36.9 million in the prior year. Selling and distribution expenses were held flat at $26.2 million from $26.5 million for the prior year as the company continues to drive operating efficiencies in this area of the business.

General and administration expenses rose to $9.1 million from $7.2 million primarily due to legal fees incurred on competitor challenges to our marketing claims

We have also received notice of a potential claim from a former contractor in South East Asia which, in the event that it were to proceed, we would defend vigorously.

Research and development expenses reduced to $2.0 million from $2.6 million for the prior year following the successful conclusion of a number of clinical trials on our Maxigesic pain relief products.

Net profit after tax attributable to shareholders rose to $12.7 million from a loss of $2.4 million in the prior year.

AUSTRALIA

Sales in Australia increased 22% to $61.4 million from $50.3 million in the prior year. Operating profits rose strongly from $5.3 million to $7.3 million.

The main OTC channel grew 25% to $39.0 million with particularly strong growth in eye care and natural medicines. Maxigesic continued to gain market share in its combined paracetamol – ibuprofen category extending its market share lead over its key competitor to 14.5 percentage points at year end[3]. Our focus in the current year is to build on this market leadership position.

[3] iRi weekly share 29 March 2020

Sales to the hospital channel grew 16% lifted by the continued growth of new hospital products, such as our antibiotic Piptaz. This product, with others we are introducing, should continue to drive growth in the hospital channel in the 2021 financial year.

Our Australian prescription channel is small, offering an outlet for niche products. This grew 23% to $6.3 million with the introduction of a new product.

We expect our significant in-licensing program to strengthen our key therapeutic areas and extend AFT's long-standing record of growth across the Tasman.

NEW ZEALAND

New Zealand revenue grew by 12% to $30.1 million from $26.8 million in the prior year.

Operating profit, excluding head office costs, rose to $5.3 million from $5.1 million in the prior year. Including head office costs, which are carried for the benefit of all territories, the segment posted an operating loss of $0.2 million. The result was weaker than the prior year's operating profit of $0.5 million and reflected the costs of supporting a larger business and costs from an increasing number of patents in particular.

The New Zealand OTC channel grew 24% to $17.4 million with strong growth in the pain, eyecare, natural medicine and allergy categories. Newly launched products in digestive health also helped.

A key success in the second half of the year was Vitamin C Liposachets. Early in the year we increased stocks in anticipation of the COVID-19 pandemic. As a direct result in March we sold twenty-one times the prior March's sales.

The New Zealand government appears set to finally follow Australia's lead in the rescheduling of codeine-based products to prescription-only during 2020. We will be able to use our previous experience in Australia to take advantage of marketing opportunities for Maxigesic and other analgesics from this shift.

The hospital category declined by 8% to $4.0 million, while the prescription channel grew 2% to $8.7 million.

SOUTHEAST ASIA

Southeast Asia revenue grew by 130% to $4.9 million from $2.1 million in the prior year. Operating profit grew by $0.4 million to $0.1 million from the $0.3 million loss for the prior year.

The hospital channel grew 175% with the launch of two new products in Singapore and Malaysia. Revenues in the OTC channel were steady in the period as the initial *Maxigesic* launch sales to Hong Kong and Malaysian distributors occurred in the prior financial year.

We saw sales improve in the second half of the financial year and the distributors have placed further orders. The South East Asian prescription channel grew to $0.7 million.

Following this significant uplift in South East Asian revenues this year, primarily in Hospital and Prescription, we expect revenue this to level off for the coming year and

we expect the operating profit to continue to grow with operational efficiency cost savings.

INTERNATIONAL

The international division is primarily focused on the out-licensing, registration and enabling the sale (via licensees or distributors) of the Maxigesic range of pain relief products. It grew revenue by 55% to $9.1 million from $5.9 million in the prior year. This result included, in April 2019, our first sales milestone payment in the European Union of €500k on the Maxigesic tablet form. We are confident of achieving further milestone payments providing an additional source of revenue.

Operating profit rose to $14.0 million from a $0.6 million profit in the prior year reflecting the growth in licence income, the return to more normalised research and development spend levels and the $9.8 million non-recurring gain on the acquisition of the Pascomer joint venture Dermatology Specialty Limited Partnership (DSLP).

Product	Maxigesic Tablets		Maxigesic IV		Maxigesic oral solution	
Territories	2020	2019	2020	2019	2020	2019
Licensed	125+	125+	80	68	122	122
Registered	44	42	3	-	-	-
Sold in	28	20	-	-	-	-

We have now out-licensed Maxigesic in its various forms in more than 125 territories. We added several new territories for the tablet form, including Canada, Chile, Columbia, Cyprus, Germany, Peru and Switzerland. The US is the biggest outstanding territory, but we have decided to achieve registration before pursuing a licensing agreement.

Maxigesic IV licensing deals have been struck in twelve new territories, including Canada, Central America, the Commonwealth of Independent States, Indonesia and Pakistan.

Further discussions are ongoing for Maxigesic IV in key EU, US and Japanese markets which have been somewhat delayed since the COVID19 pandemic, but nevertheless are expected to be concluded within the current financial year.

MAXIGESIC REGISTRATIONS

The registration of our products in each territory is the next and most consequential step towards commercialisation of our intellectual property. We have a significant pipeline of opportunities available.

Registrations for the tablet form now stand at 44, up from 42 in the same period a year ago with a significant number of new regulatory filings currently underway. We expect to progress registration of Maxigesic in the US, the EU and Japan this financial year.

The first Maxigesic IV registrations have been achieved in Australia, New Zealand and the UAE. The Australian registration of Maxigesic IV enables registration in other territories such as the Middle East and Southeast Asia.

Registrations of Maxigesic IV are expected to accelerate during the current financial year. The first registrations in 17 EU nations have been achieved in late April with US FDA filing planned for this calendar year.

Registration work for the oral liquid form of Maxigesic in 23 regulated markets continues but will still take some time. The registration of children's medicines are always challenging from a regulatory perspective.

We are still aiming in the 2020 calendar year to file for registration of a faster dissolving version of Maxigesic tablets. This follows our licence from a US company of a rapid solution forming technology.

MAXIGESIC SALES

Maxigesic in its tablet dose form is now for sale in 28 countries, up from 20 in the same period last year. The timing of launches is always difficult to predict given hurdles ranging from regulatory issues to matters specific to licensees or distributors.

We launched in Spain and Portugal and the Nordic countries in the last financial year. With launches pending in Belgium, Luxembourg, France and Germany we will soon have coverage across Western Europe.

We intended to deliver launch orders to a further 10 countries late in the 2020 financial year, but these shipments were delayed by the Indian Government's paracetamol export ban. They will now be included in the 2021 financial year.

We are meanwhile starting to increase the product range in many countries with the launch of MaxigesicPE during this last financial year in UAE. Opening orders for Maxigesic IV will be shipped to Australia, New Zealand and UAE.

PRODUCT DEVELOPMENT

Development of the Maxigesic dose forms outlined at the time of our 2015 IPO have been largely completed. Maxigesic IV is the most significant line extension, with independent market research pointing to a significant global market"

An additional study specific to US registration requirements for the product should have been completed, but it has been delayed due to COVID19 impacting enrolment in New Zealand and the US. However, it is still expected to be completed by the end of July 2020. Meanwhile, further development work continues on the dry stick sachet and cold and flu forms of Maxigesic.

Our NasoSURF nasal drug delivery device has undergone some redesign following human factor studies in the US last year. Production and development work which was based in China has been delayed due to the impact of COVID19.

We are now targeting a type IIa medical device filing with the FDA during this financial year which is later than originally planned. Market research in the US and UK identified our first targeted indication for the device has the potential to deliver AFT a significant income stream.

We have completed extensive initial development work on Pascomer utilising proprietary technology owned by AFT Pharmaceuticals. The technology has enabled development of a formulation that keeps the active ingredient, Rapamycin, stable at room temperature. This was a technically challenging achievement as Rapamycin is readily oxidised.

The drug is a treatment for Facial Angiofibromas in Tuberous Sclerosis; a market which could potentially be worth as much as US$300 million in the US. An extensive preclinical study program has been completed and an Investigational New Drug (IND) application opened with the US FDA.

Our first multi-centre international clinical study is underway but has been partially delayed due to COVID19. Enrolments are restarting in May. Pascomer has been out-licensed in North America to Timber Pharmaceuticals LLC, which has also agreed to meet the ongoing costs of the clinical development program.

In 2019 we also signed a memorandum of understanding with New Zealand medicinal cannabis company SETEK to work together in the research, development and commercialisation of medicinal cannabis products.

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