



*Working to improve your health*

**Market and media release**

**8 September 2020**

**Chairman's address delivered at AFT Pharmaceutical's 2020 Annual Meeting, on a fully virtual basis, at 10.30am (NZT) on Tuesday 8 September 2020**

In the face of so much uncertainty and turmoil in markets both here and offshore, it is immensely gratifying as both a shareholder and Chair of AFT Pharmaceuticals to recount the great progress the company has made since I addressed you last year.

AFT has not totally escaped the pandemic. It has led to delays in clinical trials and difficulties in getting our products to market, particularly to the Northern Hemisphere.

But these challenges pale in comparison to the enormous challenges faced by companies both in New Zealand and globally. Perhaps more importantly they have only marginally detracted from what we must regard as a pivotal year for AFT.

Our financial performance has been strong.

For the first time we have broken through \$100 million of revenue to reach \$105.6 million, a 24% improvement on the prior year. And our underlying operating profit for the 2020 financial year was up 87% to \$11.4 million. Operating cashflow has grown at an even faster rate rising to \$14.9 million from just over \$1 million a year earlier.

We have benefitted from growth across all our businesses.

Hartley will cover these points in more detail. However, in summary our New Zealand and Australian businesses have grown revenue by 12% and 22% respectively, extending a record of AFT sales growth that now spans two decades. Further afield, our Asian and international businesses have also delivered impressive growth in the 2020 financial year.

While our family of Maxigesic pain relief medicines attracts the headlines, AFT's success is built on 130 separate products. The strength of this portfolio is a testament to our team's ongoing success in implementing AFT's strategy.

Simply put, we are focussed on identifying customers' healthcare needs and then drawing on our internal resources and our extensive international network of partners to develop and commercialise innovative treatments to improve health.

This strategy has supported our growth over many years, and we expect it to continue to drive growth in the future.

As most of you will know, our portfolio of medicines is particularly strong in pain relief, eyecare, allergy, and health supplements, but we continue to broaden our offer where we see acute patient need.

Our product Diarelieve – a family treatment for diarrhoea profiled in this year's annual report – is a great demonstration of this capability. It was launched in New Zealand in May 2019 and remains the only specific treatment available for children, even though they are disproportionately affected by the sickness.

Maxigesic – the engine of growth in international markets – continues to gain traction. The tablet form of the medicine is now sold in 28 countries, up from 20 a year ago and we continue to see potential for sales in as many as 125 different territories.

We also see strong potential for other dose forms. These include the intravenous form of the medicine Maxigesic IV, which was last year approved for sale by the Australian Therapeutic Goods Administration, and Maxigesic oral solution, which has been specially formulated for children.

These dose forms of the medication (and others in the pipeline) represent but the early stages of a commercialisation programme that has the potential to underpin AFT's growth over the next decade.

We continue to work hard on our research and development programme, which is centred on Maxigesic dose forms and other products such as Pascomer, a treatment for a rare skin disease, and NasoSurf a nasal drug nebuliser.

As a direct result of our strong performance and our robust outlook, we have begun to put in place a more conservative capital structure that we expect to improve our free cash flow and provide us with more flexibility to fund future anticipated growth.

Firstly, at the end of the financial year, we repaid our existing CRG debt and refinanced with a \$43.2 million facility from Bank of New Zealand at significantly more attractive terms and interest rates.

More recently, CRG sold its 13% holding in the company so that the investment fund that held the stake could return capital to its underlying investors. I would like to acknowledge the support CRG has provided with both equity and debt capital during the last 5-6 years.

Alongside the CRG sale, entities associated with our founders Hartley and Marree Atkinson also sold around 1.3% of their holdings.

At the same time as these share sales, AFT raised \$12 million of new equity with a share placement and a share purchase plan. We were pleased to be able to make the share purchase plan portion 16.7% of the new capital raise against

a free float of 11% which meant that retail shareholders were given the opportunity to proportionately increase their shareholdings in AFT.

The capital raise has been primarily used to reduce debt and our plan is to progressively continue to reduce debt to a level at which the board believes it is appropriate to consider developing a dividend policy.

A further significant benefit of the capital restructure is that it has increased the free float of the company. The number of shares readily available to be traded, has more than doubled to 31% of the shares on issue from 11% prior to the capital restructure.

This has made our shares more attractive to a broader range of investors and we are already seeing the benefits.

Through the capital raising and the placement we have welcomed new institutional investors onto the share register both from New Zealand and Australia.

The Australian institutional investors are a particularly welcome addition as it represents a beachhead into the vibrant Australian healthcare investment community. We believe our strong business presence in that market and our unique growth story has the potential to attract a broader investor following of the company across the Tasman.

All these factors should, over the longer-term, increase trading in our shares, both in New Zealand and through our secondary listing on the Australian Stock Exchange. And as a direct result of this increased liquidity, we expect faster and more accurate recognition of the value your company creates for shareholders.

CRG's share sale has also precipitated changes on your board. As I mentioned earlier Nate Hukill – who was appointed by CRG – has stepped aside.

We are grateful for the contribution Nate has made since he joined the board in 2014. He has been tremendously supportive of the company and we wish him well for the future.

Nate's departure is the first major change to the board since we listed five and a half years ago. As I mentioned last year, your directors work together very well. We have a strong mix of skills across the pharmaceutical industry, sales and marketing, finance, and governance.

The board goes through an annual evaluation process and a skills matrix exercise. The information we have gathered as part of this will have an important bearing on who we select as Nate's replacement to the board.

A search is already underway, and we are looking for someone who will have complementary skills and attributes to your current board members.

As part of our governance responsibilities we are strongly committed to sustainability. Last year, we began to look at how our business and our community initiatives aligned with the UN sustainable development goals, which represent a larger and robust vision for positive change.

The progress we have made is detailed in our annual report.

In the current year, AFT has determined it will work to progressively develop and incorporate into our governance framework a strategy to account for, and report on, progress towards improvements in material and relevant environmental and social factors. We will report more to you as we make progress.

For more information on how your company is governed you should review our 2020 corporate governance statement, which is available on our website. It sets out the principles your board adheres to, and how we have reviewed governance issues throughout the year.

Finally, in closing, on behalf of shareholders I would like to acknowledge and thank Hartley, the rest of the executive and the broader AFT team for their diligence and commitment to the company over the last year and particularly over the last few months.

The Covid-19 pandemic continues to test the mettle of our people. It has imposed significant constraints on how they engage and service customers and how they collaborate with colleagues.

Nevertheless, the team has worked together well to manage supply to our international licensees and the flow of product to our home markets. Moreover, they have executed well on our strategy.

I would also like to thank my fellow board members for their contribution, their enthusiasm and their unwavering commitment to seeing the company make the most of the significant opportunities it enjoys both here in New Zealand and offshore.

We have entered the new financial year in a stronger position than we have ever been. We expect to expand and grow our portfolio of medicines in Australasia and grow international sales of Maxigesic to drive another record result for this financial year.

Our current expectation is for operating profits to expand by 23% to 58% to \$14 million to \$18 million. This figure excludes any licensing fees for new agreements that may be received over the current year.

It is an exciting time for AFT and we thank you our shareholders for the faith you have shown in the company and your ongoing support.

I would now like to invite Hartley to address the meeting.

Thank you.

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

ENDS

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