Market Release 19 November 2020

FINANCIAL RESULTS FOR HALF YEAR ENDED 30 SEPTEMBER 2020

AFT growth continues despite Covid-19

Performance Highlights

- **Operating Revenues** increase 4% to $48.8 million with growth in the Australian and Rest of World markets.
- **Underlying Operating Revenues from product sales** increase 9% to $48.4 million.
- **Net Profit After Tax (NPAT)** increase of 968% to $1.2 million for the six months following the normalised (NPAT)[1]$0.1 million for the same period a year ago.
- ***Maxigesic* pain relief registrations** up to 46 territories for the oral formulation and 20 territories for the intravenous formulation.
- **Maxigesic US FDA** complete response letter indicating final approvability of Maxigesic tablets in US subject to Good Manufacturing Practice (GMP) inspection.
- **Equity Raise** of $12 million to reduce debt facility and fund anticipated growth.
- **Operating profit forecast** for the year to 31 March 2021 remains in the $14 to $18 million range.

AFT Pharmaceuticals (NZX; AFT, ASX; AFP) today announces continued growth in revenue and normalised earnings as it benefits from growth across its portfolio of over-the-counter and prescription medicines.

It also reports continuing good progress commercialising its *Maxigesic* pain medication in international markets, despite the Covid-19 challenges.

Group operating revenue for the six months to 30 September 2020 grew by 4% to $48.8 million from $46.9 million in the same period a year ago. Underlying revenue from product sales grew 9% to $48.4 million.

AFT's largest market, Australia grew revenue by 11%, New Zealand was flat while Asia was down 7% with all markets seeing Covid-19 related disruptions.

Operating revenue from the Rest of the World declined 15% due to lower *Maxigesic* licensing income as Covid-19 travel restrictions disrupted international out licensing negotiations. However, the underlying product sales grew a strong 57%.

Group operating profit for the six months to 30 September 2020 was $2.4 million, down from the normalised[1] $3.9 million operating profit in the same period a year ago. The fall was due primarily to lower license income.

[1] FY20 normalised to exclude $9.8m gain on de-recognition of equity accounted investment and recognition of net assets acquired at fair value in a step acquisition

Last year's first half operating profit of $13.7 million 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 $1.2 million from the normalised $0.1 million in the same period a year ago. The DSLP gain increased last year's first half NPBT to $9.9 million.

Chair David Flacks said: "AFT has delivered another strong result despite the disrupted global environment. The rise in net profit confirms our strategy to expand our presence in our home markets of Australia, New Zealand and Asia and grow our international revenues through the out licensing of our intellectual property.

"This growth, coupled with the refinancing of our debt at New Zealand market rates and the $12 million in new capital we raised earlier this year reinforces our position to continue to grow shareholder value."

Founder and Managing Director Dr Hartley Atkinson said: "We are pleased with the progress we have made in what have been challenging market conditions. Following on from last year, all divisions of the company - Australia, New Zealand, Asia and our International markets – continue to contribute to group operating earnings.

"Our main Australian market continued to grow strongly despite some COVID-19 related disruptions. We are investing for growth and have added new medicines to our in-licensed portfolio that have the potential to lift sales considerably in the coming years.

"We are pleased with the ongoing progress of our development program. We have filed for regulatory approval for a further four line extensions to *Maxigesic*. These come on top of growing registrations around the world for *Maxigesic* tablets and *Maxigesic IV*.

"We see further significant growth in international *Maxigesic* sales in the second half of the 2021 financial year and into the following financial year as the number of countries in which the medicine is launched increases. We also see a sharper acceleration in the following years as sales in all these countries build, we add additional dose forms and the impacts of Covid-19 lessen.

"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."

MAXIGESIC COMMERCIALISATION

Maxigesic tablets are now being sold in 34 countries, up from 28 at the end of the 2020 financial year.

Product	*Maxigesic* Tablets		*Maxigesic* IV		*Maxigesic* oral solution	
Territories	Sept 2020	March 2020	Sept 2020	March 2020	Sept 2020	March 2020
Licensed	125+	125+	90	80	122	122
Registered	46	44	20	3	-	-
Sold	34	28	3	-	-	-

Licensing

In the half year we signed a further ten *Maxigesic IV* Licensing and Distribution Agreements in six countries within the CEE, Germany, Austria, France and Italy. These agreements have lifted the number of territories in which the medicine has been licensed to 90 as at 30 September 2020 with further recent signings since then in Hong Kong and the UK.

Licensing negotiations have been hampered due to Covid-19 restrictions, which have limited our ability to travel to meet with potential licensees. In response we have relocated one of AFT's Business Development personnel to Switzerland.

AFT has also set up an EU affiliate, AFT Pharmaceuticals (EUR) Ltd based in Ireland to handle anticipated growing sales in the region. The office will include sales and regulatory resources for that market.

We are seeing deal momentum improving, particularly in Europe as the region gets back to work after the initial lockdowns and the summer holiday season.

Since 30 September 2020, we have added tablet agreements for Greece and Pakistan. This is consistent with the previously noted deal interest following a slow period when Covid-19 broke out.

We are also working on out-licensing both the tablet and intravenous dose forms of *Maxigesic* for the USA, China, and Japan, some of the largest pharmaceutical markets in the world.

Importantly, *Maxigesic* tablets have now received a positive complete response letter from the US FDA with successful GMP inspection of the manufacturing facility being the last remaining step. This will not be possible until Covid-19 travel restrictions are lifted.

Launches

Covid-19 has delayed *Maxigesic* launches in some markets however we are on track to reach our goal of over 40 countries within the current financial year. We had originally targeted sales and orders from 66 countries but now believe 50 is a more likely outcome.

We anticipate launches of *Maxigesic* tablets in nine markets in the second half of this financial year.

PRODUCT DEVELOPMENT

Maxigesic

The majority of the *Maxigesic* clinical trial programme has now been completed. An additional 225 patient clinical study of *Maxigesic IV* was completed in USA in order to prepare the US regulatory dossier.

Completion of this study was delayed due to Covid-19 in the USA, but despite some significant challenges, this has been successfully completed and study data monitored through remote audit which was an innovative approach.

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 have been made for *Maxigesic Hot Drink Sachets* and *Maxigesic Oral Liquid.* We continue to work on securing our first regulatory approvals which are expected prior to the end of this financial year.

Final development work also continues on *Maxigesic Dry Stick Sachets* which has been delayed due to some challenges with stability data. Meanwhile additional *Maxigesic Rapid* regulatory data is under preparation.

We have filed for the approval of *Maxigesic Cold & Flu* in Australia and we await review. A further patent for the key Australian market has been in-licensed to create an additional *Maxigesic* line extension. This has also now been filed in Australia. Hence currently there are a further four *Maxigesic* line extensions under regulatory review and a further one (*Maxigesic Rapid)* being prepared for submission which represents pleasing progress in our development program.

Pascomer

The development programme for our drug *Pascomer,* a stable topical formulation of Rapamycin being developed for facial angiofibromas in tuberous sclerosis complex, continues to progress. Stability studies have now confirmed a 36-month shelf life at room temperature which is extraordinary considering that the active ingredient Rapamycin is easily oxidized.

We are enrolling patients into our large multi-centre international study with sites in New Zealand, Australia, US and Europe. Although enrolment rates and running of the study has been significantly impacted by Covid-19 restrictions we are well underway and continue to enrol patients. Our focus remains to complete this initial study during 2021 despite challenges to enrolment.

NasoSURF

The development programme for *NasoSURF,* a nasal drug nebuliser, continues with successful completion of the engineering batches.

We have now commenced work on development of the specific dose form for the first formulation to be produced in the United Sates. Following this, preliminary batches will be used for clinical studies which are planned for the 2021 calendar year.

Australasian markets.

Our in-licensing program has continued to gather momentum and we see this will further grow our business across both markets in future. Positive results have started to show from these efforts as we have, for example, achieved 23 new product approvals across Australia and New Zealand during the first half of this financial year. The subsequent launches of these products will assist in driving sales growth for Australia and New Zealand.

We have also undertaken an extensive review of the requirements for medicinal cannabis in Australia. We have followed on from our Memorandum of Understanding with the Taupo-based SETEK to sign a distribution agreement for our first products. AFT will take over responsibility for compiling product registration dossiers which will be an important and essential next step.

In the meantime, we are rolling out the first launches of our hemp-based topical product range, *Hemptuary* as an extension of our existing *Topiderm* branded range of topical treatments, at this stage into Australia and New Zealand.

Outlook

This year has seen unprecedented challenges due to Covid-19, but regardless our team has worked tirelessly to successfully minimise their impact.

Sales have grown and although development work has been delayed in some cases, we continue to advance our development projects.

Additional launches continue, and are contributing to sales growth in our International markets and we believe these will accelerate. Larger licensing agreements such as USA for either *Maxigesic IV or oral* remain a key upside for the future.

We continue to expect the combination of sales growth, careful management of expenditure and some additional licensing agreements to allow us to deliver our forecast operating profit for the year to 31 March 2021 of $14 million to $18 million.

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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 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.

A F T pharmaceuticals

19 November 2020

MANAGEMENT FINANCIAL DISCUSSION AND ANALYSIS

FOR THE HALF YEAR TO 30 SEPTEMBER 2020

Financial performance

Group Operating Results	Six Month Period		Change	Change
NZ$'000	Ended September 30		($)	(%)
	FY2021	FY2020		
Revenue	**48,821**	**46,946**	**+ 1,875**	**+ 4**
Cost of Sales	(28,489)	(25,598)	+ 2,891	+ 11
Gross Profit	**20,332**	**21,348**	**- 1,016**	**- 5**
Other Income	230	336	- 106	- 32
Selling and distribution expenses	(12,387)	(12,938)	- 551	- 4
General and administrative expenses	(3,895)	(4,536)	- 641	- 14
Research and development expenses	(1,858)	(223)	+ 1,635	+ 733
Equity Accounted Loss of joint venture entity	-	(80)	- 80	- 100
Gain on disposal of joint venture interest	-	9,784	- 9,784	- 100
Operating Profit / (Loss)	**2,422**	**13,691**	**-11,269**	**- 82**

REVENUE

Australian Revenue grew by 11% to $28.6 million from $25.7million in the same period a year ago and represented 58% of Group Operating Revenue. Operating profits rose to $3.2 million from $1.9 million in the same period a year ago.

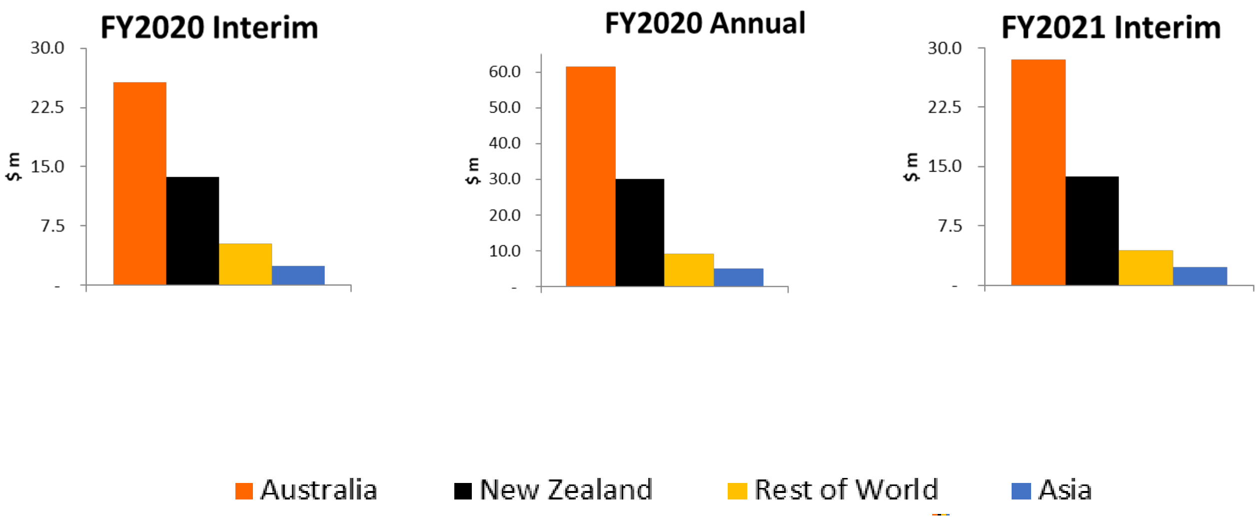
The OTC channel has been hindered by the Covid-19 restrictions but has grown at 9% and is generating 60% of total Australian revenue. We have introduced hand sanitizer and face masks to assist with the Covid-19 response and these have made a valuable contribution to sales.

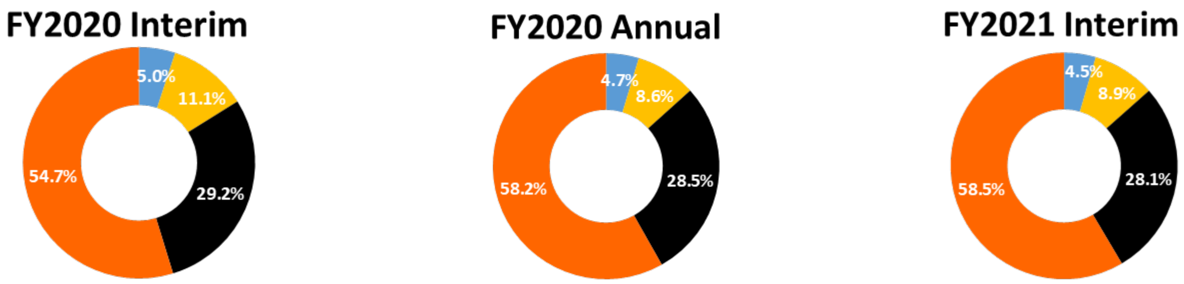
Maxigesic sales were impacted by Covid-19 restrictions and have not grown over the period. However, the brand maintains its leadership of the paracetamol-ibuprofen combination section of the pain management market.

Our eyecare range continued to deliver good growth, benefiting from the recently introduced products including *Novatears* and its line extension *Novatears Omega3* and *Optisoothe*.

We retain the number one position in the lubricating eyecare category in Australia.

The Hospital channel grew 13% to generate total sales of $8.6 million. It benefited from anti-biotic sales in response to Covid-19. The Prescription channel grew at 17% with the launch of new products, whilst some products, such as penicillin, were significantly down due to the decline in GP visits during Covid-19 restrictions.





New Zealand Revenue of $13.7 million was flat on the same period a year ago and represented 28% of Group Operating Revenue. Operating profit, excluding head office costs, of $1.6 million was also level with the same period a year ago.

This is a good result given the significant impact of the Covid-19 restrictions. The end of the prior year saw strong sales of a range of Covid-19 related products, in particular Vitamin C and antibiotics, and this together with the subsequent Covid-19 restrictions has impacted sales in this first half.

The OTC channel grew at 3% to $7.6 million from $7.4 million at the same time a year ago. The standout categories were allergy medicines and face masks which were introduced to assist with the Covid-19 response.

The Hospital channel grew at 11% to $2.2 million from $1.9 million at the same time a year ago with strong sales of antibiotics. The Prescription channel declined 9% to $4.0 million from $4.4 million at the same time a year ago. The fall was due to the restrictions on GP visits through the Covid-19 lock downs and government restrictions preventing pharmacists from dispensing more than 30 days of medicine through this period. These restrictions were eased to the standard 90 days in August, which will see a shift back to more usual sales levels.

Asia Revenue declined 7% to $2.2 million from $2.4 million in the same period last year and generated 5% of Group Operating Revenue. However, operating profits rose strongly to $0.7 million from $0.1 million in the same period last year. The launches and transition to better margin Hospital and prescription products have significantly improved the profitability of this market.

The OTC channel benefitted from pandemic stockpiling of *Maxigesic* in Singapore. The Hospital and prescription channels declined with the transition to better margin products which resulted in the significant improvements in profitability.

We have launched a T-Mall flagship store to drive ecommerce sales into the Chinese market and additionally brand recognition. Initial sales have been positive, but it is a long-term project albeit with significant potential.

With sales commencing from China and in the near future, South Korea, we have amended this segment to be named as Asia, as opposed to Southeast Asia, to reflect the expanded geography.

Rest of World Revenue declined 16% to $4.4 million from $5.2 million in the same period a year ago and represented 9% of Group Operating Revenue. The overall decline was due to limited license income in this time period. However, revenues from product sales grew by 57% to $3.9 million.

Maxigesic product sales and royalty income from existing markets, launch orders shipped to the new markets of Mexico, Germany, Belgium and Luxembourg generated a large proportion of the revenue.

Sales have been restricted by ongoing impacts of Covid-19 in India where manufacturing of *Maxigesic* tablets is currently undertaken. Diversification of the manufacturing base is well underway and is expected to mitigate these disruptions by the end of this financial year.

Operating profit at break-even is behind the normalised $3.4 million result in the same period last year, again reflecting lower license income. The prior period also benefitted from one-off $1.7 million contributions from joint venture partners resulting from successful development results.

The prior year's first half operating profit of $13.1 million also included the non-recurring gain on acquisition of the joint venture Dermatology Specialty Limited Partnership (DSLP) of $9.8 million.

Gross Profit declined 5% to $20.3 million due to the lower license income, with the underlying gross profit from product sales growing by 6% to $20 million driven by revenue growth in Australia and the Rest of World. The gross profit margin on product sales fell 1 percentage point to 41% due to the weaker New Zealand dollar at the start of the year and additional freight costs incurred to get product to Australia and New Zealand through the Covid19 transport shortages in order to ensure continuity of supply

Other Income of $0.2 million was in line with the $0.3 million in the prior year. It includes a *Callaghan Innovation* growth grant that we receive on eligible research and development expenditure and *NZTE International Growth Fund* grants that we receive on eligible market development expenditure in Asia.

Selling and Distribution expenses fell 4% to $12.4 million from $12.9 million in the same period last year. We were able to tailor our spend in Australia and New Zealand to suit the Covid-19 restrictions. We continue to benefit from efficiencies in Australia, New

Zealand and Asia and revenue growth in the Rest of World where licensees carry these costs.

Selling and distribution expenses now represent 25% of revenue, down from 27% in the same period a year ago. Whilst we will be investing to launch and promote new products in our home markets, over the longer term we expect these expenses as a proportion of total revenue to continue to reduce as revenue from the Rest of World grows.

General and Administration expenses fell 14% to $3.9 million from $4.5 million in the same period a year ago due to reduced legal fees in Australia. These fees relate to a 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 increased to $1.8 million. The net $0.2 million for the same period a year ago included the one-off $1.7 million contributions from joint venture partners following successful development results. So actual spend has remained consistent.

AFT is continuing to carefully run its Research and Development budgets and to investigate other sources of funding such as international research grants, including grants from the USA.

These efforts to date have been bolstered by agreements for Pascomer that recover Research and Development costs from our partners, effectively minimising risk, and lowering AFT's spending.

However, despite the reduced expenditure we have not cut back on development work. It continues and the biggest challenge at present remains navigating the impact of Covid-19 on studies.

Cash Flow and Balance Sheet

Total Assets of $94.0 million rose from $87.1 million as at 31 March 2020 (referred to as PCP for this section) with the increase in working capital and intangible assets driving the rise.

Working Capital increased to $32.9 million (PCP $26.2 million) with inventory increasing to $36.0 million (PCP $22.7 million). We have been building our inventory up to protect our stock levels during the supply and freight difficulties and delays caused by Covid-19.

Receivables have reduced to $16.6 million (PCP $26.0 million) with the year-end having been particularly high due to the large pre-lockdown sales made at the back end of last year. Payables and provisions reduced to $19.7 million (PCP $22.5 million).

Cash holdings of $5.9 million remained at about the same level as year-end (PCP $6.1 million). The $12 million we raised with the issue of new equity has been used to reduce debt by $3.0 million.

A $2.7 million net cash outflow from operating activities was due primarily to the stock build, the $3.9 million net cash outflow from investing activities and the $2.4 million outflow of other financing activities.

We had initially anticipated using the equity raise to more actively reduce our debt level, however as the ongoing nature of Covid-19 restrictions became more apparent we have taken the more prudent approach of building inventory levels. Due to the seasonal nature of our home markets we would more typically expect to hold between $2 million to $4 million more inventory in September over March.

Finally, our new BNZ three-year facility provides us with greater flexibility than the previous six-year term loan and at greatly reduced interest costs.

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