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FINANCIAL RESULTS FOR THE SIX MONTHS TO 30 SEPTEMBER 2022

## **AFT extends growth investment as sales surge**

### **HIGHLIGHTS**

- Half-year operating revenue up 18.4% to \$65.8 million, lifted by a 30% growth in product sales and royalties; growth rate was diluted by lower licensing income
- Gross profit increased by 7% to \$28.7 million, with gross profit from product sales and royalties up 31% to \$28.6 million.
- Operating profit down to \$3.5 million from \$5.5 million in the prior year due to lower licensing income and increased Australasian investment to capitalise on growth opportunities.
- Net profit after tax decreased to \$1.5 million from \$4.2 million
- Net debt at \$29.4 million in line with \$29.3 million at the end of March 2022
- Targeting near term annual revenue of \$200 million, underpinned by strong ongoing demand, product launches and the ongoing Maxigesic commercialisation programme
- Near term growth target supported by \$10 million incremental investment in selling and distribution in the Australasian markets.
- New guidance for the FY23 operating profit of \$18 million to \$23 million down from May guidance of \$27 million to \$32 million, due to growth investments and deferred license income due to the delay in Maxigesic IV US registration.
- AFT continues to expect to declare a dividend for the year to the end of March 2023

AFT Pharmaceuticals (NZX: AFT, ASX:AFP) today reports financial results for the six months to the end of September 2023 showing the company benefitting from growing demand for its portfolio of medicines, the easing of COVID pressures in most markets and new product launches.

The company also announces it is increasing its investment in growth as it drives towards an annual revenue target of \$200 million in the near future. This investment, an incremental \$10 million selling and distribution spend in the current financial year, will be used to support new product launches in Australia and New Zealand and a new sales force focused on Australian General Practitioners.

As a direct result of this investment and the delay to the US commercialisation of Maxigesic IV, the intravenous form of the company's pain relief medicine, AFT is today updating its earnings guidance.

AFT now expects operating profits for the year to 31 March 2023 to range between \$18 million to \$23 million, lower than the \$27 million to \$32 million flagged at the start of the financial year.

The sale of existing products, the launch of new products and product royalties are expected to contribute \$17.5 million and \$21.0 million to this result, while the less predictable and lumpy licensing income is now expected to contribute between \$0.5 million and \$2.0 million.

AFT Pharmaceuticals Chair David Flacks said: "We are seeing strong growth in demand for our products and we have a broad range of opportunities to extend our portfolio in Australasian markets.

"Faced with these opportunities we believe it is appropriate to accelerate our growth with new investment. In the short term this comes at the expense of earnings, but in the longer term we believe shareholders will benefit."

AFT Pharmaceuticals Managing Director Dr Hartley Atkinson said: "Over the last six months we have continued to build on the momentum achieved in the second half of the prior financial year.

"With the easing of COVID pressures in most geographies and the launch of new products we have seen strong organic growth in our business, particularly in our broad portfolio of over-the-counter medicines. The time is right to accelerate our growth plans."

## **Financial results**

Revenue for the six months to the end of September rose to \$65.8 million, a strong 18% improvement on the \$55.5 million posted in the same period a year ago. Revenue from product sales and royalty income was up 30%, or nearly \$15 million, but growth was diluted by lower and traditionally lumpy licensing income

The Australasian business made the biggest contribution to growth, adding \$12.3 million in incremental revenue. The combined markets, presently AFT's largest, grew revenue by 27.4% to \$57.4 million, further demonstrating their strength and ongoing growth potential.

The international business – which is currently focused on the commercialisation of the Maxigesic family of pain relief medicines – grew strongly with revenue from product sales and royalties rising 68% from \$2.8 million to \$4.7 million. Total international revenue was down on the prior year's \$7.6 million, which was boosted by \$4.8 million of licensing revenue.

Dose forms of Maxigesic are now sold in 51 countries up from 46 at the end of March 2022 and 43 at the same time last year and the company continues to advance the commercialisation of line extensions.

The Asian business meanwhile has seen strong growth in the OTC business as the new partnership with the ASX-listed McPherson's to distribute our products in Singapore delivers on its promise.

It also benefited from strong sales of Maxigesic in Malaysia and Hong Kong. The newly launched OTC products on our T-Mall site have started to contribute, but this is presently hampered by ongoing COVID restrictions in Mainland China.

Gross profit grew 7% to \$28.7 million from \$26.7 million. The gross profit margin decline of 4.5 percentage points to 43.6% is due to the lower license income.

Gross profit from product sales and royalties grew 31% to \$28.6 million from \$21.9 million. The margin improved by 0.5 percentage points to 43.6%, despite incurring the additional expense of airfreighting product in order to expedite product launches.

Selling and distribution expenses rose to \$17.3 million from \$14.2 million, at 26% of operating revenue. This increase arises from the marketing spend behind the new product launches and the move to a dedicated Australian GP sales force.

Operating profit decreased to \$3.5 million from \$5.5 million due to lower license income. Operating profit excluding the licensing income increased to \$3.4 million from \$0.7 million. Net Profit after tax decreased to \$1.5 million from \$4.2 million, again due to lower licensing income.

Further detail on the performance of AFT's individual markets is contained in our interim report also released to the NZX and ASX today and available at the following link: <https://investors.aftpharm.com/Investors/>

## **Research and development**

Research and development expenditure in the half year period was \$2.8 million, largely flat on the \$2.8 million in the same period of the prior year and it remains in line with guidance for full year.

Constraints on the availability of growth capital that have emerged from the shift in global capital market sentiment has played into the hands of cash generative companies such as AFT.

Competition for medicine development projects has eased considerably and consequently AFT has seized this opportunity to secure rights to medicines that offer promising long-term potential for the business.

## **New product development pipeline**

AFT has a full portfolio of product launches for our Australasian business. Since the end of March 2022, the company has launched 5 OTC products including Maxigesic hot drink sachets, and 6 hospital products.

"In the second half of the year, we are launching a further 14 OTC and 1 Prescription products. By the end of FY2025 we expect to have launched a total of 76 products since the start of FY2023," Dr Atkinson said.

"Of these, we expect 51% will be launched into the OTC channel, 37% in the hospital channel and the remaining 12% in the prescription channel, with the intellectual property coming from either in-licensing or our own drug development programs."

## **Balance sheet**

AFT remains well funded. Net debt at the end of the half year was \$29.4 million in line with the \$29.3 million at the end of March 2022.

"Inventory levels remain higher than normal as a buffer against disruptions in global supply chains. There has been some easing in global transportation, particularly on the main routes and we expect this to slowly filter through to Australia and New Zealand," Dr Atkinson said.

## **Outlook**

Dr Atkinson said the company expected a stronger second half.

"If anything, we expect the result for the full year to be even more skewed to the second half than normal, due to the high number of planned launches.

"Strong growth in all existing markets will continue to drive overall sales and we expect our in-licensing and research and development pipeline to make a growing contribution to revenue and earnings over time.

"We also continue to expect to declare a maiden dividend for the 2023 financial year. We look forward to providing a further update in the New Year."

*For and on behalf of AFT Pharmaceuticals Limited by Malcolm Tubby, Chief Financial Officer.*

## **For more information:**

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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 to out-license / distribute our products to local licensees and distributors to over 125 countries around the world. For more information about the company, visit our website: [www.aftpharm.com](http://www.aftpharm.com).