A|F|T pharmaceuticals

Working to improve your health

Market release 18 November 2021

UNAUDITED FINANCIAL RESULTS FOR THE HALF YEAR TO 30 SEPTEMBER 2021

AFT reaffirms guidance and progresses growth plan

HIGHLIGHTS*

- Revenue rises 14% to $55.5 million from $48.8 million despite multiple COVID-19 challenges
- Growth led by International (+74%), New Zealand (+15%) and Asia (+32%)
- License income of $4.8 million from $0.3 million
- Sales in Australia (+2%) and international product sale revenue, (-35%) were hampered in the short term by lockdowns, delayed launches and supply chain constraints, while global Maxigesic sales in the prior year were bolstered by stock pipeline builds
- Operating profit more than doubles to $5.5 million from $2.4 million lifted by high margin licensing revenue
- Net profit after tax more than triples to $4.2 million from $1.2 million.
- Net debt of $32.6 million down from $35.2 at the end of March 2021 and $34.3 million at the end of September 2020. Cash balance improved to $5.9 million from $3.2 million at year end.
- Maxigesic® commercialisation momentum continues with registration approval of the intravenous and oral dose forms in 51 countries. The medicine is now sold in 47 countries.
- Guidance for an operating profit of $18 million to $23 million reaffirmed for the year to 31 March 2022 with product launches and improving market conditions expected to underpin a traditionally stronger second half of the year.

**All comparisons are to the prior half year unless otherwise stated*

AFT Pharmaceuticals (NZX; AFT, ASX; AFP) today reports improving results for the half year to 30 September 2021 and - despite the disruptions of COVID-19 – has made good progress putting in the foundations for sustained growth in the years ahead.

The company has continued to consolidate its strong position in the Australasian over the counter (OTC), prescription and hospital pharmaceutical markets and grown its Asian business with new product launches and regulatory approvals.

It has advanced its programme to commercialise its portfolio of Maxigesic pain relief medicines. It has also further progressed its development pipeline, including commencing a new study examining the potential for its dermatology product, Pascomer as a treatment for 'port wine stain' birthmarks.

FINANCIAL RESULTS

Revenue for the six months to 30 September 2021 grew 14% to $55.4 million from $48.8 million in the same period a year ago, led by International, New Zealand and Asia.

The rise also reflects strong growth in income from out-licensing Maxigesic, including income from the landmark US licensing agreement with Hikma Pharmaceuticals signed at the start of the half year period.

These gains were tempered by positive – albeit subdued growth - in Australia and slower product sales in international markets principally due to COVID-19 related disruptions, including delayed launches in international markets. Sales in the international business in the prior year were also lifted by stock pipeline fills that were not repeated in the current financial year but sales royalties have now increased consistent with increasing sell through during this period.

Operating profit more than doubled to $5.5 million from $2.4 million in the prior half year, lifted by high-margin licensing revenue and some price increases.

AFT also increased marketing investment in the company's Australasian and Asian brands aimed at building or sustaining their leadership position in these markets and lifted research expenditure in R&D projects to drive long term growth in the business.

Net profit after tax more than tripled to $4.4 million from $1.2 million in the prior year with the increase reflecting improvements in operating profits and the benefits of lower finance charges.

The company remains well funded. Net debt at the end of the half year was $32.6 million, down from $35.2 million in March and $34.3 million at the same time a year ago. AFT reduced its overall working capital, whilst retaining Inventory at elevated levels in line with AFT's position to protect itself from any ongoing supply chain disruptions which were foreseen 12 months ago.

A detailed discussion of the company's financial performance for the half year period is detailed below and in an investor presentation released to the NZX and ASX this morning and available on AFT's investor centre https://investors.aftpharm.com/Investors/

AFT Pharmaceuticals Chair David Flacks said: "COVID-19 has represented a continuing headwind to our progress over the half year. Nevertheless, we have still delivered a strong improvement in revenue and earnings.

"We see these conditions as a temporary setback. We are seeing broad improvements in global markets as most countries around the world move to living with COVID-19 and we are confident of an acceleration of growth in the traditionally stronger second half of the financial year."

AFT Pharmaceuticals Managing Director Dr Hartley Atkinson said: "Our New Zealand business, which although affected by COVID-19 restrictions in the latter part of the six-month period, demonstrates the unconstrained potential of our Australasian operations.

"It has grown New Zealand revenue by more than 15% over the same period a year ago and benefitted from a more open, albeit still challenging, trading environment, relative to offshore, and strong demand across its medicine portfolio including Maxigesic. Asian markets have also performed well.

"Extended COVID-19 lockdowns in New South Wales and Victoria have hampered OTC sales of AFT's medicines in Australia despite the introduction of COVID-19 related products such as our long-lasting hand sanitiser Crystawash Extend and face masks.

"International markets, and particularly the EU, have been similarly affected by COVID-19. But the impact on AFT's financial results appears greater because the prior half year result benefitted from licensees buying stock to fill their distribution networks.

"Launches of the intravenous Maxigesic IV in Austria and Germany, among other markets, have been hampered by COVID-19 related restrictions on distributors accessing hospitals, the primary customers of the medicine.

"Group operating profit margins have remained resilient and were lifted by licensing income and some price increases. However, rising product and distribution costs that have not yet all been passed on to customers have weighed on international margins.

"Despite these challenges, we continue to put in place the building blocks that will underpin the long-term growth around the world and extend our record for driving improvements in shareholder value.

"However, there is a silver lining in COVID-19 whereby we have used the time gained from less travel to significantly upscale our in-licensing operations and consequently we now have plans to launch more than 30 new products in Australasia over the next 18 months. In Asia we are establishing new distribution channels for our OTC portfolio. This has included the trial with T-Mall which we plan to soon expand and more recently we signed a distribution agreement in Singapore with the ASX-listed McPherson's.

"We have continued to advance our programme to commercialise Maxigesic globally, securing new registrations and filling out our global licensee footprint.

"We remain on track to have launched the medicine in 53 countries by the end of the financial year and stand to benefit from product sales, milestone payments and royalties or a share of the profits.

"The US agreement we secured with Hikma Pharmaceuticals, for instance, has the potential to deliver upfront, regulatory, and commercial milestone payments of up to US$18.8 million. It delivered AFT US$3.6 million in the half-year period.

"Finally, we remain excited about the potential of our development pipeline. The pending launch of a new study in Spain examining the potential for our medicine Pascomer as a treatment for 'port wine stain' birthmarks demonstrates our growing R&D pipeline."

MAXIGESIC COMMERCIALISATION:

Product	**Maxigesic tablets**		**Maxigesic IV**		**Maxigesic oral solution**	
Territories	31 Oct 2021*	31 March 2021	31 Oct 2021*	31 March 2021	31 Oct 2021*	31 March 2021
Licensed	100+	100+	100+	100+	100+	100+
Registered	51	49	29	21	2	0
Sold in	46	43	5	3	0	0

Maxigesic tablets have been registered in a number of major markets – with the notable exception of the US, where our application now sits with the US Food and Drug Administration and we expect approval during the 2022 calendar year. We have continued to fill in the gaps gaining regulatory approvals in Chile, Peru with further filings underway or in progress.

Notable tablet launches since March have included Switzerland and Greece bringing the total number of countries where the tablets are sold to 46. Maxigesic tablets are the number one ibuprofen, paracetamol combination in Australia and this demonstrates the potential for the medicine around the world.

Maxigesic IV was registered in markets in Central America, Greece, Ireland, Poland, South Korea and UK and the US FDA has accepted our New Drug Application for the medicine.

Maxigesic IV is now being sold in Germany and Austria (among others). We also progressed the latest dose form Maxigesic Oral Solution achieving the first regulatory approvals in Italy and Malta, and we expect registrations to follow in new markets shortly.

The oral dose form illustrates the potential of the Maxigesic family of medicine. We have a pipeline of line extensions to come to market including hot drink sachets, a rapid absorption form, Maxigesic Rapid, versions targeted at easing the symptoms of cold and flu as well as a dry stick sachet. All these products are backed by patents, some such as for example the US formulation Maxigesic Rapid extending out as far as 2039.

We continue to target sales of the medicine in its various dose forms in 53 markets by the end of this financial year. The market for oral analgesics globally is attractive by virtue of being large and estimated to be worth US$17.9B in 2021 and has an expected 5-year CAGR of 9.2%*1.

RESEARCH AND DEVELOPMENT:

Despite COVID-19 restrictions limiting face to face contact with our national and international research collaborators, we have maintained an active programme.

Our study examining the effectiveness of Pascomer for the treatment of facial angiofibromas has now completed patient enrolment and we are targeting results for the middle of next year. It had faced delays due to COVID-19 related difficulties in recruiting patients.

We are also excited by the potential for the medicine to treat 'port-wine stain' birth marks. We are commencing a study in Spain that is expected to deliver results in 2022.

A clinical proof of concept study for our NasoSurf nasal drug nebuliser is due to commence later this year and we are presently developing the first dose form that is in a plastic ampoule which can be used to directly fill the dosing chamber in the NasoSURF device. Results of the clinical study are also due in the new financial year.

Meanwhile we continue to invest in a broad of range of studies testing the effectiveness of new and existing Maxigesic dose forms in various clinical settings. Additionally, we are preparing to add new projects to our R&D pipeline.

OUTLOOK

"Although there has clearly been an impact from COVID-19 on many aspects of our business especially the ability to travel and visit key partners and customers, we are nevertheless encouraged by reports showing an easing of COVID-19 restrictions in our most important markets around the world" Dr Atkinson said.

As they have opened, we have seen an improvement in sales after a slow period during the worst of the pandemic in Europe and an acceleration in the latter part of the six-month period".

"The second half of the year is traditionally stronger for AFT Pharmaceuticals, and we expect no change to this trend in the current year, especially as there are a number of launches initially planned for the first half that have been delayed and will now take place in the second half of the year. These launches come atop additional line extensions and new product launches planned over the coming months.

"On this basis, our guidance for an operating profit for the year to 30 March 2020 remains at $18 million to $23 million.

"For these reasons, and assuming no material change to the current trading conditions, we remain confident of meeting this target.

"Finally, it remains our intention to consider a dividend policy once we have reached our net debt target of $25 million to $30 million level and our earnings guidance.

"We look forward to updating shareholders as the remainder of the year progresses."

For and on behalf of AFT Pharmaceuticals Limited, Malcolm Tubby, CFO

For more information:

Investors
Dr Hartley Atkinson
Managing Director
AFT Pharmaceuticals
Tel: +64 9488 0232

Media
Richard Inder
The Project
Tel: +64 21 645 643

[*1] *Research and Markets Report*.

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: 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 over 125 countries around the world. For more information about the company, visit our website www.aftpharm.com.

FINANCIAL COMMENTARY
FOR THE SIX MONTHS TO 30 SEPTEMBER 2021

AFT group operating revenue for the six months to 30 September 2022 grew 14% to $55.5 million from $48.8 million in the prior financial first half year, with Australia growing at 2%, New Zealand growing at 15%, Asia growing at 32% and International growing at 74%.

Gross profit grew 31% to $26.7 million from $20.3 million in the prior first half year. The gross profit margin improvement of 6.5 percentage points to 48.1% is due primarily to the higher license income (at a 100% margin) together with a 1.7 percentage point improvement in the margin from product sales due to some selling price increases

Costs in the prior first half were also higher due to the weaker Australian and New Zealand dollars and the use of air freight through the start of the pandemic.

Selling and distribution expenses rose to $14.2 million from $12.4 million, remaining at 26% of operating revenue. We anticipate maintaining a similar percentage of operating revenue for the coming year as we launch new products to drive revenues in Australia and New Zealand. 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 increased to $4.3 million from $3.9 million due primarily to investment in increased personnel for growth and increases in insurance and IP expenses.

Research and development expenses rose to $2.8 million from $1.9 million with a ramp up in development cost spend on the NasoSurf device and increased costs in the in-licensing of products for Australia and New Zealand together with increased staff costs.

AFT continues 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.

Summary Financial Results	Half year ended 30 Sept	
	2021	2020
	$'000	$'000
Revenue	**55,513**	**48,821**
Cost of Sales	(28,808)	(28,489)
Gross Profit	**26,705**	**20,332**
Other Income	123	230
Selling and distribution expenses	(14,237)	(12,387)
General and administrative expenses	(4,269)	(3,895)
Research and development expenses	(2,831)	(1,858)
Operating Profit	**5,491**	**2,422**

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.

Operating profit increased to $5.5 million from $2.4 million. Net Profit after tax increases to $4.2 million from $1.2 million.

Balance sheet

Total assets increased to $105.7 million from $105.1 million at the 31 March 2021 year end with the investment into intangible assets all but offset by the reduction in working capital.

In current assets, Inventory remained steady at $34.1 million ($33.7 million at year end). Debtors reduced to $25.7 million from $31.0 million at year end, improving the cash balance to $5.9 million from $3.2 million at year end.

The amendment to the BNZ facility in May which replaced $5 million of the working capital loan with the $5 million business finance scheme loan has generated further savings in interest costs which in turn has improved profit after tax to $4.2 million compared to $1.2 million for the first half of the prior year.

Australia

Sales in Australia grew by 2% to $29.2 million from $28.5 million in the prior period and represent 53% of Group Operating Revenue. Operating profits rose to $3.6 million from $3.2 million.

The OTC channel continued to be hindered by the Covid-19 lockdowns and restrictions, primarily in the eastern states. It grew by 2% and is generating 59% of total Australian revenue. The delayed product launches are now due in the last quarter of the year which will assist the full year growth.

Maxigesic sales were impacted by Covid-19 restrictions, but have regardless grown at 18% over the prior first half of last year. The brand maintains its leadership of the paracetamol-ibuprofen combination section of the pain management market.

Our eyecare range continued to deliver good growth. We retain the number 2 position in the lubricating eyecare category in Australia and the number 1 selling SKU.

The Hospital channel declined by 1%, due to the return to more usual levels of antibiotic sales, following the surge in the prior first half of last year in response to Covid-19.

The Prescription channel grew at 13% with the launch of further new products, with other products, such as penicillin, returning to more usual levels. In the prior half year, sales were down significantly due to the decline in GP visits during Covid-19 restrictions.

Overall, our significant launch program of new products has been delayed by the ongoing global restrictions and delays caused by Covid-19 however, we expect them to accelerate sales growth in the second half, to extend our long-standing record of growth in this market on a full year basis.

New Zealand

Sales in New Zealand grew 15% to $15.8 million from $13.7 million and represented 28% of Group Operating Revenue. Operating profit, excluding head office costs, increased to $2.0 million from $1.7 million.

The OTC channel grew by 13% to $8.6 million from $7.7 million. This primarily reflects a return to more normal sales and rates of growth, following the severe impact of the pandemic lockdowns in the first of half of the prior year. Sales of Vitamin C Liposachets, in particular, have resumed good growth, having suffered in the first half of the prior financial year from pre-Covid stockpiling. Maxigesic has also shown strong growth following the re-scheduling of codeine containing medicines to prescription only at the end of 2020.

We have seen some drop off in general OTC sales following the re-introduction of the lockdowns in Auckland, but with the anticipated easing over the coming months we expect to return to good growth levels for the remainder of the financial year aided by additional new product launches.

The Hospital channel grew at 23% to $2.7 million from $2.2 million with strong sales of antibiotics. The Prescription channel grew at 15% to $4.6 million from $4.0 million.

Asia Revenue
Sales in Asia grew 32% to $2.9 million from $2.2 million and generated 5% of Group Operating Revenue. Operating profits declined to $0.4 million from $0.7 million as we invested in our marketing support of products with growth potential.

The OTC channel grew 11% with the growth in sales on our T-Mall store and in Hong Kong. The T-Mall flagship store was established last year to drive ecommerce sales into the Chinese market and additionally build brand recognition ahead of China in-market launches. Early-stage sales of a limited number of products have been positive and we are working towards expanding this range. This is a long-term project with significant potential.

These gains more than offset lower sales in Singapore which had benefitted in the prior year first half from pandemic stockpiling of *Maxigesic*. The Hospital and prescription channels grew 32% due primarily to strong anti-bacterial sales.

Rest of World Revenue
Sales to the rest of the world grew 74% to $7.6 million from $4.4 million and represented 14% of Group Operating Revenue.

License income of $4.8 million is up significantly from the $0.3 million for the first half of the prior year. Royalties earned from the licensees in-market sales grew 134% to $0.2 million from $0.1 million with the post pandemic return to stronger growth in existing markets together with the launches in new markets.

Product sales to licensees and distributors declined 35% to $2.6 million from $4.0 million as their stockholdings sold through. Their sales in the main markets of Europe were slower last year during the height of the pandemic and as a result it has taken longer to sell-through their stockholdings. However, in-market sales have now recovered.

With the customer orders we have in place for existing and new markets and the positive trends we are seeing on in-market sales we expect to show growth in product sales for the full year.

Operating profit was $ 3.3 million up significantly on the break even for the first half of the prior year with the increase in revenues partially offset by the additional investment made into research and development as discussed above.

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