



Working to improve your health

9 January 2023

2023 New Year letter to investors

AFT Pharmaceuticals (NZX: AFT, ASX: AFP) today releases the attached New Year letter to shareholders

Dear shareholder,

AFT Pharmaceuticals is looking to continue and build upon the significant progress made during 2022 as we move on from the uncertainties of the COVID-19 pandemic.

Good progress is being made, as evidenced by the 30% growth in product sales reported for the first half of the 2023 Financial Year (FY23) and we believe that we will see ongoing and strengthening growth in sales across all our regions in the coming calendar year.

The resilience and potential of our Australasian business is well understood. It has grown significantly over the last 10 years as we have commercialised our own intellectual property and in-licensed medicines from our global network of partners. We believe these strong rates of growth will continue to be supported by new product launches and ongoing organic growth.

Launches in our Australasian markets have been delayed and supply chain pressures have weighed on margins particularly as we have been forced to turn to airfreight in some instances to meet launch schedules and built inventory to maintain supply.

We are similarly confident about the prospects for our international business. Its performance over the last two years has been overshadowed by the headwinds of the COVID pandemic.

These factors have seen the international business perform below our expectations and those of the market. We have not put these pressures completely behind us, but we are now more confident they are easing, and the business should deliver on the potential we see.

Maxigesic commercialisation

During 2023 we expect to further extend the number of countries in which Maxigesic tablets, Maxigesic IV and the hot drink sachet forms of the medicine are sold.

We are expecting the first launch of Maxigesic Oral Liquid to occur in an international market soon and we are preparing for the first launch of a Maxigesic Cold & Flu/Sinus & Pain Treatment Kit in Australia.

We continue to work on Maxigesic approvals for Maxigesic IV and tablets in the US, the world's largest market for pain relief¹. We had expected approvals for both formulations last year but now expect that to be this year.

International investment

We have announced the strengthening of our global footprint by increasing resources outside our home markets.

We formed AFT Pharmaceuticals Europe based in Ireland and two of our staff shifted to Europe (London & Zurich). Additionally, we recently formed AFT Pharm UK, which is 70% owned by AFT and 30% by our long-term collaboration partner, Edge Pharma.

Our new UK subsidiary will spearhead expanded sales into the UK market which strategically makes sense as it now sits outside Europe. Sales from AFT Pharma UK are expected in FY24 as some product licenses already held by Edge will be transferred to the new entity. Edge holds rights to a significant number of hospital drugs for the UK market which will be sold by AFT Pharma UK. The new entity will also take over responsibility for selling Maxigesic IV from Kensington Pharma in the UK.

Our recently established Hong Kong based office, meanwhile, has a dedicated Asia Sales Manager who is helping us to realise the potential we see in the region including China.

Australia and New Zealand

AFT continues to work hard to accelerate sales progress in both Australia and New Zealand and extend our record of success in these markets.

Our growth plans remain significant with new product launches continuing, including 15 planned in the remaining months of the current financial year, another 27 during FY24 and a further 23 during FY25. Additionally, our expanded Business Development team continues to work on our pipeline, so we expect to add further products to the FY25 launch pipeline.

It is important to note that considerable resource and expenditure has gone into this aggressive pipeline expansion, which is focussed on our existing seven therapeutic areas – Pain, Eyecare, Dermatology, Gastrointestinal, Allergy, Medicated Vitamins and Hospital Injectables.

Several interesting and innovative products are featured in the line-up. For example, we are extending our preservative-free eye drop line. We have launched a preservative free antibiotic (chloramphenicol) eye drop to treat eye infections. We

¹ Mordorintelligence.com. 2021. Pain Management Market (2021 - 26) | Industry Analysis, Size, Share | Covid - 19 Impact.

are also this year launching the only multi-dose preservative free glaucoma eye drop which will be funded on the Australian Pharmaceutical Benefits Scheme (PBS).

We recently decided to assign additional promotional investment to these new launches. We have also invested in an additional sales team to promote to doctors in the Australian market.

Presently this field force is employed through a third-party, but we will bring this in-house during this calendar year which will result in cost savings during the FY24 financial year, part of which will then be used to further expand our merchandising team.

Regrettably this additional promotional investment required us to downgrade our FY23 earnings guidance when we released our 1H23 results in November. However, we strongly believe the increased spend is the right long-term decision and we believe this investment will be rewarded with faster sales growth in later years.

E-Commerce

AFT continues to work on expanding its e-commerce offerings. Our first major project CBEC (Cross Border E-Commerce) via T-Mall China is progressing well. This is effectively an extension of our Australian and New Zealand business, but accessing the significant population in Mainland China, many of whom are accustomed to purchasing medicines online including through CBEC channels.

Although COVID restrictions over 2022 have not helped, we have still seen promising sales. These are expected to accelerate with the lifting of COVID restrictions in Mainland China. We saw our website traffic significantly increase during December from about 10,000 to 773,000 unique site visitors per month as shortages of analgesics emerged in the region. This resulted in a record sales month with the leading sales being Vitamin C Liposachets and Maxigesic. We believe that this will significantly help the awareness of our site as we build this sales channel.

We will announce further e-commerce developments over 2023 as planned new initiatives are launched both in International and local markets.

Legal Updates

Following a successful legal appeal in Australia, AFT has resumed comparing Maxigesic against Paracetamol and Ibuprofen in its advertising and this has resulted in an acceleration in sales growth.

AFT is evaluating pursuing a damages claim against Reckitt relating to the advertising injunction the UK-based consumer products company had put in place over these Maxigesic claims. Additionally, the legal costs owed by Reckitt to AFT as a result of the successful appeal have been assessed to be reasonably significant, but this matter is expected to take some time to settle.

We have also concluded the hearing of the legal dispute related to our subsidiary AFT Orphan Pharmaceuticals and await the judgement decision early this year.

Research and Development

Our research and development programme continues to strengthen the foundations for AFT's future growth. A significant factor in our success has been that additional opportunities have become available following the tightening in global financing conditions.

Capital-consuming biotechs and drug development companies, have struggled. However, AFT - as a profitable company - has the ability to fund these type of opportunities from existing cashflows.

Meanwhile, many of our existing distributors or licensees are already asking us about ongoing R&D products as they are interested in extending our current business relationships. Hence, we believe the work that has been undertaken to date internationally will help us to further leverage commercialisation of our R&D.

Maxigesic

For Maxigesic we continue to work to finalise the development of additional dose forms to further bolster the overall portfolio. They include:

- Maxigesic Dry Stick Sachets, a patented version (patent expiry 2036), of flavoured granules that can be taken without water; and
- Maxigesic Rapid, a patented (patent expiry 2039), fast dissolving version. We are seeking approval for this version in the US and in other countries.

NasoSURF

Our *NasoSURF* nasal nebuliser project struck some problems in 2022 both with the device and additionally with some COVID related delays in China. But these issues have now been resolved and the first human study will be completed this year.

Provided the study results are as expected, we would plan to accelerate the development of the device with the aim of having a US Food and Drug Administration New Drug Application (NDA) completed by the end of 2024. Market research for the first indication suggests a potential billion-dollar product so this remains of high interest to us.

We expect most of the revenue opportunity can be realised from the device consumables, a blow filled seal (BFS) dose form for the device. A key feature of the device to protect our position is an RFID card that will be used to ensure that only an AFT manufactured BFS is used with the device.

Pascomer and other projects

We completed our initial Pascomer clinical study in the orphan drug indication, Facial Angiofibromas, and this year we are also starting a pilot study in Port Wine Stains, which is a larger non-orphan indication.

We have also started a development program for a novel patented topical treatment for Strawberry Birthmarks which are skin growths seen in new-borns. This is an exciting project but still some years away and so it is at an early stage of development.

We have a number of other projects advancing and regulatory dossiers are now completed for two R&D projects – Project SD and BT, both of which have potential markets of US\$200M. The first regulatory filings will occur early this year and additionally partnering discussions will be initiated. For Project SD we already have secured a distributor in Canada so this will be the leading collaboration.

Project KW features 3 separate developments. The first two, a tablet and a sachet, are advancing at an Italian based manufacturer with dossiers targeted during FY24. The third is planned to be initiated this calendar year depending on progress with the first two. The project is targeting a market segment of US\$700M.

We anticipate further progress for our medicinal cannabis (CBD) program during 2023.

Additionally, we continue to work on securing additional R&D projects and anticipate further announcements during this year.

Financial outlook

Overall, we continue to work hard to execute upon our plans and look forward to further accelerating progress during 2023 to build on the significant advances made during 2022.

We have also recognised that forecasting for the lumpy licensing income is challenging so we have started to split this out from 'business as usual' income and profits. This is because much of this income can be significantly influenced by the timing of events triggering these milestones such as drug registrations.

We note various negative commentaries around the economy, but based upon our experiences in prior economic downturns, we do not foresee that general economic conditions will significantly impact our growth plans.

Provided there are no unexpected financial events specific to AFT, we remain committed to payment of a maiden dividend following completion of the FY23 Financial Year.

We thank shareholders for their ongoing support and look forward to reporting progress against these goals.

With our best wishes for the year ahead.

Kind regards

David Flacks
Chair

Dr Hartley Atkinson
Managing Director

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

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

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