Market Release
May 25 2016

AFT FY2016 Results Announcement

Performance Highlights

- ***Maxigesic*** licensed or under distribution agreements in 98 countries
- ***Maxigesic*** sold and launched in four countries (Australia, Italy, New Zealand, United Arab Emirates)
- Total Income increases 16.5% to $65.8m*
  **Total Income comprises Operating Revenues of $64.0m (FY2015 $56.2m) and License Income of $1.8m (FY2015 $0.3m)*
- Investment in research and development increases 46.0% to $8.4m*
  **Total research and development includes the equity accounting for the joint venture*
- Cash available at March 31 2016 $28.1m following the successful IPO in December 2015

AFT Pharmaceuticals Limited (NZX; AFT, ASX; AFP) today announced its full-year audited financial results for the year ended 31 March 2016 (**FY2016**).

"The FY2016 results reflect the ongoing strategy of expanding our presence in our home markets of Australia, New Zealand and Southeast Asia, while continuing the investment in Research and Development of our key products to also grow our international revenues," said Hartley Atkinson, CEO of AFT Pharmaceuticals.

"It has been a busy period since our December 22 2015 listing on the NZX Main Board and ASX. The company has been working hard to deliver on its expansion program and we are pleased to note good progress towards our goals."

Financial Overview

Operating Revenues grew 14% to $64.0m. The Australian market grew by 19% and is now our largest market. New Zealand grew by 6% and is showing strong growth in the OTC (Over the Counter) channel. Rest of the World (excluding Southeast Asia) almost trebled revenue to break through $1.0m. Southeast Asia grew fourfold also from a low base with sales commencing in FY2015.

Gross Margin declined narrowly by 1% to 37%. The main drivers were in Prescription and Hospital pricing pressure from government purchasing agencies in Australia and New Zealand, however these were offset by the growth in the OTC business at better margins.

Licensing Income, which are the milestone payments received from out-licensing arrangements we have in our 'Rest of the World' markets, are classified in the Financial Statements as Other Income.

This grew significantly to $1.8m for FY2016 (FY2015 $0.3m) with a combination of new out-licensing agreements commencing and milestone payments on existing agreements.

The funds raised in the December 2015 IPO enabled us to increase and bring forward the investment program into Research and Development. This represented the biggest increase in operating expenses for the year. Research and Development represented 13% of revenue. In total, operating expenses represented 54% of revenue (50% on FY2015).

These factors culminated in the Operating Loss for the year of $9.0m.

Summary Financial Results

	Year Ended March 31	
	2016 $'000	2015 $'000
Revenue	**64,014**	**56,241**
Cost of Sales	40,435	35,083
Gross Profit	**23,579**	**21,158**
Other Income	2,295	1,270
Selling and distribution expenses	(19,634)	(17,157)
General and administrative expenses	(6,804)	(5,475)
Research and development expenses	(8,092)	(5,761)
Equity accounted loss of joint venture entity	(302)	-
Operating Loss	**(8,958)**	**(5,965)**

Operating Revenue by Segment

Operating Revenue grew 14% to $64.0m for the year ended March 31 2016 from $56.2m for the year ended March 31 2015 due primarily to the growth in our primary Australian market.

- **Australia** Revenue grew by 19% to $31.2m with strong growth in the main OTC channel. Three new products were launched, *Crystaderm, RestoraNail* and *Myconail*, while *Maxigesic* grew strongly even within the current Pharmacist Only scheduling. However, Revenue growth was hindered by the low production levels being achieved by a significant product supplier. We continue to develop an alternate manufacturing line dedicated to manufacture of this formulation.

  "We were pleased to secure endorsement from the highly-respected Pharmacy Guild of Australia whereby *Maxigesic* packs of 24 tablets will feature the Guild's 'Gold Cross' logo," said Dr Atkinson. "This together with proposed down-scheduling from Pharmacist (behind the counter) to Pharmacy (On the shelf and able to be advertised) and up-scheduling of competitor OTC codeine combination products from restricted Pharmacist to Prescription offers significant upside for *Maxigesic* in the Australian market."

- **New Zealand** Revenue grew by 6% to $31.1m also with good growth in the OTC channel. Sales of *Maxigesic, Crystaderm* and *Myconail* (which was launched in FY2015) all grew well and in addition, *RestoraNail* was launched.
- **Southeast Asia** Revenue grew 302% (from a low base) to $0.6m and will continue to grow as new products are launched. Sales were predominantly in the Singapore market where product registration is generally quicker to obtain. Additional sales representatives are starting in Singapore this year in order to launch *Maxigesic, Crystaderm and RestoraNail* in that market.
- **Rest of World** Revenue grew 182% to $1.0m with over half of the revenue coming from sales of *Maxigesic.* Dr Atkinson said that "In FY2016 we sold *Maxigesic* to licensees in Italy, the United Arab Emirates and the United Kingdom. United Arab Emirates has doubled sales in year two and we expect these markets to grow rapidly. Launches by our Licensees are imminent in the United Kingdom, Bulgaria, Hungary, Romania, Slovakia, Serbia, and Singapore".

Gross Margin

Gross Margin of 37% for FY2016 declined slightly by 1% from the 38% for FY2015. The main drivers were in Prescription and Hospital pricing pressure from government purchasing agencies in Australia and New Zealand, however these were partially offset by the growth in the OTC business at better margins. We expect the positive impact on Gross Margin to become more significant as the International revenues grow.

Operating Overheads

- **Research and Development** investment increased to $8.4m (this includes the joint venture equity accounting) from $5.8m in the prior year, with the accelerated investment in clinical trial spend enabled from the fund raising IPO in December 2015.
- **Selling and Distribution** expenses increased in line with the 14% revenue growth to $19.6m ($17.2m FY2015) driven to a large extent by the full year impact of the investment into the Australian sales force presence.
- **General and Administration** expenses increased to $6.8m (FY2015 $5.5m) in line with the increase in business activity together with the additional costs of becoming a public company (directors' fees, share registry, investor relations and the employee share options).

Product Development

The flagship development program, *Maxigesic*, has progressed significantly post the IPO.

- Additional out-licensing and distribution agreements for *Maxigesic* oral dose forms have now been secured to increase the number of countries to 98.
- Clinical Trials for *Maxigesic* oral dose forms are well underway with studies running in Amman, Jordan; various centres in New Zealand; Cardiff, Wales; Melbourne, Australia; Mexico City; Mexico.
- Regulatory applications for the first additional *Maxigesic* oral dose forms to be filed this year.
- An IND (Investigational New Drug) Application has been successfully opened with the FDA for *Maxigesic* IV (a form of *Maxigesic* delivered intravenously) and the first clinical study under the IND is underway in Christchurch, New Zealand. The next study is planned to start in Q3 2016 in the United States (Texas and Maryland).

- Additional out-licensing and distribution agreements for *Maxigesic IV* have also been secured to now reach 69 countries.
- Additional out-licensing agreements are expected to be announced in FY2017.

The other major Key Innovative Product development program, the patented ultrasonic nasal drug delivery and treatment device *NasoSURF*, is also making significant progress.

- Pilot scale production is currently underway, which will enable the first clinical studies to be conducted during FY2017 and also the first registrations to be filed in major jurisdictions such as Australia, Europe and the USA.
- The project is on track for sales to commence next year for simple dose forms and for further drug delivery indications to be developed, and further subsequent filings made the following year.

Outlook

Dr Atkinson says that he expects AFT will make a loss in this coming FY2017 due to significant investment in accelerating clinical studies for Key Innovative Products. “Our Research and Development programme drives the company and it is furthering the pathway for significant international sales from our key products in the coming years,” said Dr Atkinson. “We expect this current Research and Development programme to be substantially completed during FY2017 and FY2018 after which we are targeting a return to positive EBITDA”.

Balance Sheet

The cash position improved to $28.1m at March 31 2016 (FY2015 $4.7m) with the funds raised from the December 2015 IPO. These will be utilised to accelerate the Research and Development program detailed in the Product Disclosure Statement.

Inventory and creditors increased in line with the 14% revenue growth. Debtors increased likewise but with a larger increase in March, with wholesalers increasing stock levels to allow for the early Easter holiday period.

End of release

For more information:

Malcolm Tubby, Chief Financial Officer, AFT Pharmaceuticals Ltd
Phone: +64 9 488 0232 (x703)
Mobile: +64 21 36 88 69
Email: malcolm@aftpharm.com

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 South-East 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.