Market Release
May 24 2017

AFT FY2017 Results Announcement

Performance Highlights

- **Total Income** increases 8% to $70.8m*
  **Total Income comprises Operating Revenues of $69.2m (PCP $64.0m) and License Income of $1.6m (PCP $1.8m)*
- ***Maxigesic*** licensed or under distribution agreements in 112 countries
- ***Maxigesic*** sold and launched in eight countries (Australia, Brunei, Italy, New Zealand, Serbia, Singapore, United Arab Emirates and United Kingdom). Registration work and launch preparations well underway to increase launches over the next 3 years
- ***Maxigesic*** tablet sales have increased from 22 million tablets to 74 million tablets
- **Investment in research and development** increases 38.0% to $11.6m*
  **Total research and development includes the equity accounting for the joint venture*
- ***Maxigesic*** pivotal studies enrolment substantially completed – IV (intravenous) and Oral Liquid
- ***Maxigesic*** successful initial development of two additional dose forms
- ***NasoSurf*** completed Class I Medical Device registration in US and first clinical studies in ANZ underway. Gathering data to prepare for IND (Investigational New Drug Application) with FDA during 2017 calendar year
- ***Pascomer*** successful granting of ODD (Orphan Drug Designation) from FDA and EMA grant suitability confirmed. Gathering data to prepare for IND (Investigational New Drug Application) with FDA during FY2018 financial year.
- **Cash available** at 31 March 2017 $16.0m
- **Term Loan revenue covenants** removed for the remaining two years FY2018 and FY2019

AFT Pharmaceuticals Limited (NZX; AFT, ASX; AFP) today announced its full-year audited financial results for the year ended 31 March 2017 (**FY2017**).

“The FY2017 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 22 December 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. Many key development targets have been either achieved or

significantly progressed. We have now confirmed that the FDA have accepted the *Maxigesic* registration application in the United States. In Europe we have received confirmation of registration in a further 9 member states including large and significant markets such as France, Germany and Belgium. This is particularly important as the United States and France are the two largest target markets in the world respectively. It is these together with expanding the existing business that will drive sales expansion over the next few years."

Financial Overview

Operating Revenues grew 8% to $69.2m. Australia, our largest market, grew by 19%. New Zealand recovered a little in the second half to end the year 6% down. Southeast Asia grew 55% and Rest of World again doubled.

Gross Margin improved by 1% to 38%. The main driver was from the growth in Over the Counter (OTC) revenues, however these were partially offset by the one off supply issues with Metoprolol in New Zealand.

Licensing Income, which comprises the milestone payments received from out licensing arrangements we have in our Rest of World markets, are classified in the Financial Statements as Other Income. This remained in the same range at $1.6m (PCP $1.8m), with a combination of new out licensing agreements commencing and milestone payments on existing agreements.

Research and Development increased to 16% of Revenues as we complete the development program of our key products. Selling and Distribution increased to 38% of revenue primarily supporting the launch of new OTC products in Australia and Southeast Asia. In total, Operating Expenses represented 63% of Revenue (54% on FY2016).

These factors culminated in the Operating Loss for the year of $14.8m.

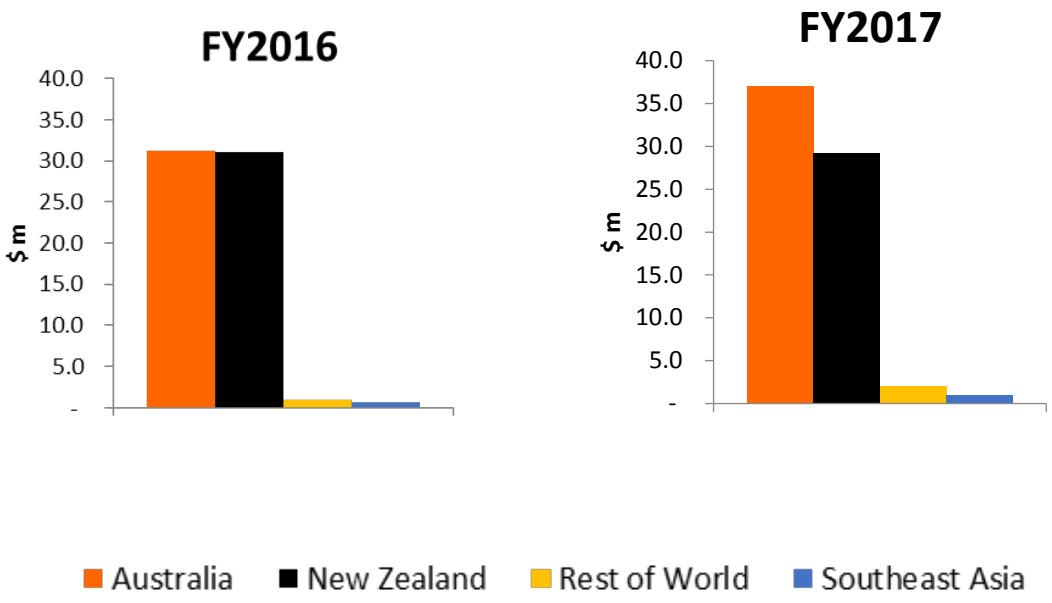
Summary Financial Results

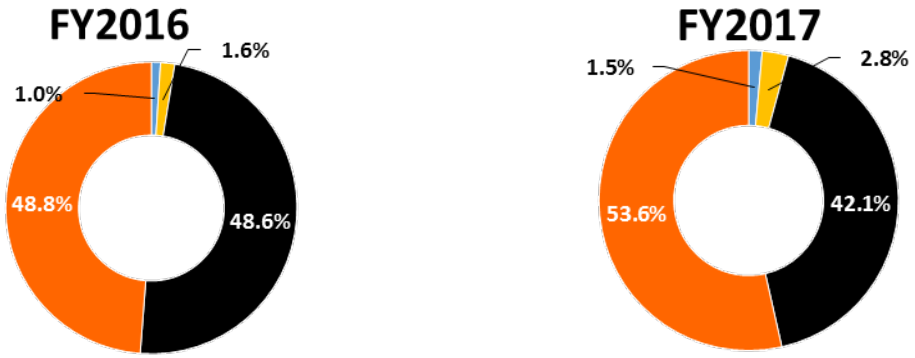
	Year Ended 31 March	
	2017 $'000	2016 $'000
Revenue	**69,205**	**64,014**
Cost of Sales	43,207	40,435
Gross Profit	**25,998**	**23,579**
Other Income	2,659	2,295
Selling and distribution expenses	(25,964)	(19,634)
General and administrative expenses	(5,851)	(6,804)
Research and development expenses	(11,227)	(8,092)
Equity Accounted Loss of joint venture entity	(414)	(302)
Operating Loss	**(14,799)**	**(8,958)**

Operating Revenue

Operating Revenue grew 8% to $69.2m for the year ended 31 March 2017 from $64.0m for the year ended 31 March 2016 due primarily to the growth in our primary Australian market and the emerging Rest of World market.

The following tables set out the revenues from our four markets:





Australia Revenue grew by 19% to $37.1m (PCP $31.2m) and this market now makes up 54% of Group Operating Revenue. With strong growth in its main over the counter channel, *Maxigesic* revenues more than doubled with the targeted post recheduling advertising in the second half of the year. The newly launched products, *Crystaderm* and *RestoraNail* are showing good growth. The Hospital channel also had strong growth and these two channels drove an underlying growth rate of 26%. This was pulled back to the 19% overall growth rate due to the low levels of supply for a

significant product in the first half of the year. The additional plant added last year improved volumes to some extent through the second half of the year and we expect further improvements in volumes going forward.

New Zealand Revenue recovered a little in the second half to end the year 6% down at $29.2m (PCP $31.1m) and now represents 42% of the Group Operating Revenue. 3%, or half, of this decline was due to the manufacturing supply issues with the sole supply tender product *Metoprolol*. AFT will cease to supply this product mid way through FY2018. This is a satisfactory outcome and AFT are pleased to have been able to ensure that continuity of supply to patients was achieved through this difficult period. The remaining 3% decline is due to the weaker sales in the Pharmacy channel. There was a pronounced decline in the first half of the year, and this did recover to a flat second half of the year albeit with a disappointing allergy season due to the wet weather. Market data on total retail sales in Pharmacy indicates that the market is around 1.5% down for the year. Moving forward we see further growth of higher margin OTC product sales which are growing despite some weakness as noted in the Pharmacy channel.

Southeast Asia Revenue grew by 55% to $1.0m (PCP $0.6m) and this market now makes up 1.5% of Group Operating Revenue. Sales were predominantly in the Singapore market where product registration is generally quicker to obtain. *Maxigesic, Crystaderm, RestoraNail* and *Ferro* have been launched in Singapore.

Rest of World Revenue again doubled to $2.0m (PCP $1.0m) and this market now makes up 2.8% of the Group Operating Revenue. Most of the revenues are coming from sales and royalties of *Maxigesic.* United Arab Emirates sales have trebled; sales to Italy have increased sixfold; sales to the UK were stalled due to the delayed launch by the Licensees however now launched, they report sales ahead of expectations; we have made our first sales to Serbia and further launches will occur in this FY2018 period. Launches are also dictated by regulatory timelines which influence the new market timelines.

Gross Margin

Gross Margin of 38% for FY2017 improved by 1% from 37% for FY2016. The main drivers for the improvement were from the growth in Over the Counter (OTC) revenues primarily in Australia and the emerging Rest of World. The gross margin was negatively impacted 2% ($1.5m) by the additional costs incurred during the Metoprolol supply shortage in New Zealand. This includes writing off $0.8m of stock damaged in transit. We have made a $0.55m recovery against this, which is included in Other Income. Without these one off costs our underlying Gross Margin would have improved to 40% consistent with increased sales of over the counter products. We expect the positive impact on Gross Margin to become more significant as the Australian and Rest of World over the counter revenues grow.

Other Income

Licensing income, which comprises the milestone payments received from the out licensing arrangements we have in our Rest of World markets, are classified in the Financial Statements as Other Income. This was $1.6m for the period (PCP $1.8m), with a combination of new out licensing agreements commencing and milestone payments on existing agreements.

Also included in Other Income is the $0.55m recovery on stock damaged in transit and the Callaghan Innovation research and development grant of $0.5m (PCP $0.5m) to bring total Other Income to $2.7m (PCP $2.3m).

Operating Overheads

Total Research and Development investment increased to $11.6m (PCP $8.4m). This includes the $0.4m spend on *Pascomer* which under IFRS accounting standards we are required to record as joint venture equity accounted loss in the consolidated income statement. A large portion of total research and development spend was on the *Maxigesic IV* clinical trial in the United States which has progressed well and is now nearing completion.

Selling and Distribution expenses increased to $25.9m (PCP $19.6m) driven primarily by the launch of OTC products in the Australian and Singapore markets plus the advertising of *Maxigesic* in Australia after the scheduling change which occurred on 1 July 2016.

General and Administration expenses reduced to $5.9m (PCP $6.8m) due to one off costs incurred in FY2016 relating to the company's IPO and listing and the reclassification of some overheads from general and administration into selling and distribution.

Balance Sheet

Total Assets of $58.2m (PCP $65.3m) have reduced primarily due to the investment made into research and development and the launch of primarily established OTC products into Australia and Singapore. Working Capital requirements increased with the $2.2m increase in Inventory to $18.7m in line with the revenue growth, together with the $1.9m increase in Debtors which was also primarily in line with the revenue growth, offset by the $1.5m increase in current liabilities.

The cash position of $16.0m at March 31 2016 (PCP $28.0m) reflects the $18.0m loss due to the investment into research and development and product launches, the $2.6m increase in working capital and the $9.1m equity raise of redeemable preference shares in March.

The Balance Sheet is primarily working capital driven with the only intangible asset of any significance being the $2.5m of capitalised patents and trademarks. At this stage of our key innovative products' lives, no development costs have been eligible under accounting standards to be capitalised.

The company is pleased to note that, given their satisfaction with the progress of the company, CRG the holder of the long term loan to AFT has removed the requirement for revenue covenants for the remaining two financial years – FY2018 and FY2019.

Outlook

The board expects AFT will significantly narrow its losses in FY2018 and return to profitability during the FY2018/FY2019 period. The timing will be dependent upon sales growth in Australia, new launch dates and additional licensing agreements in larger territories which are expected to feature more significant upfront and milestone payments than those received to date.

The *Maxigesic* development programme will be substantially completed during this FY2018 period and the key focus will be completion of registrations and subsequent launches of both tablets and the additional dose forms in the licensed territories.

Additional development work will then switch to *NasoSURF* and *Pascomer* but this will be funded by existing cash flows or development contributions from licensing partners.

The codeine switch in Australia together with expanding sales of higher margin OTC products already launched in FY2017 will drive sales growth in Australia. The codeine opportunity whilst being difficult to accurately forecast is significant given that 750 million tablets of codeine based OTC products are currently sold in Australia every year. In New Zealand, Medsafe are currently evaluating codeine rescheduling.

End of release

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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 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.