Market Release
May 23 2018

AFT FY2018 Results Announcement

Performance Highlights

- **Total Income** increases 16% to $81.9m*
  **Total Income comprises Operating Revenues of $80.1m (PCP $69.2m) and License Income of $1.8m (PCP $1.6m)*
- **Gross Profit** grew by 32% to $34.2m.
- **Operating Loss** of $10.1m (PCP $14.8) has reduced with the growth in Operating Revenues and an improved Gross profit margin.
- ***Maxigesic*** licensed or under distribution agreements in 125 countries.
- ***Maxigesic*** sold and launched in ten countries. Registration work and launch preparations well underway to increase launches over the next 3 years.
- **Research and Development** We have successfully concluded our largest clinical trial, the Phase 3 study for the intravenous (IV) form of *Maxigesic.* The completion of this study along with the *Maxigesic* Oral Liquid study represents a significant amount of our clinical trial expenditure planned at IPO.
- ***NasoSurf*** first clinical studies are underway in Australia and New Zealand and a pre-IND (Investigational New Drug Application) application made to FDA.
- **Cash available** at 31 March 2018 $6.8m.

AFT Pharmaceuticals Limited (NZX; AFT, ASX; AFP) today announced its full-year audited financial results for the year ended 31 March 2018 (**FY2018**).

“The FY2018 results reflect the significant progress on development and commercialisation of our key innovative products in addition to expanding our Australasian business,” said Hartley Atkinson, CEO of AFT Pharmaceuticals.

“Our Operating Revenues grew 16% to $80.1m, with our largest market Australia growing at a significant 33%. Importantly our overall company gross profit grew by 32% as our margins expanded from 38% in the prior year to 43% this financial year. This has been driven by increases in sales of over the counter (OTC) products consistent with our strategy.”

Further important advancements in product development and registrations were made during the year. While these are not immediately apparent in FY2018 income, again they are important building blocks for future sales growth and profitability.”

Financial Overview

Operating Revenues grew 16% to $80.1m. Australia, our largest market, grew by 33%. New Zealand declined by 7%. Southeast Asia grew 28% and Rest of World grew 27%.

Gross Margin improved by 5% to 43%. The main driver was from the growth in OTC revenues in Australia and New Zealand.

Licensing Income comprises the milestone payments received from out licensing arrangements we have in our Rest of World markets and the fees we have received from the divestment of non-core hospital products. It is classified in the Financial Statements as Other Income. This remained in the same range as the prior year at $1.8m (PCP $1.6m), with a combination of new out licensing agreements commencing and milestone payments on existing agreements, together with the divestment fees.

Research and Development declined to 10% of Revenues as we completed the significant proportion of our current development programme of our key products. Selling and Distribution declined to 36% of revenue supporting the OTC products in Australia, New Zealand and Southeast Asia. In total, Operating Expenses represented 58% of Revenue (PCP 63%).

These factors culminated in the reduction in the Operating Loss for the year to $10.1m.

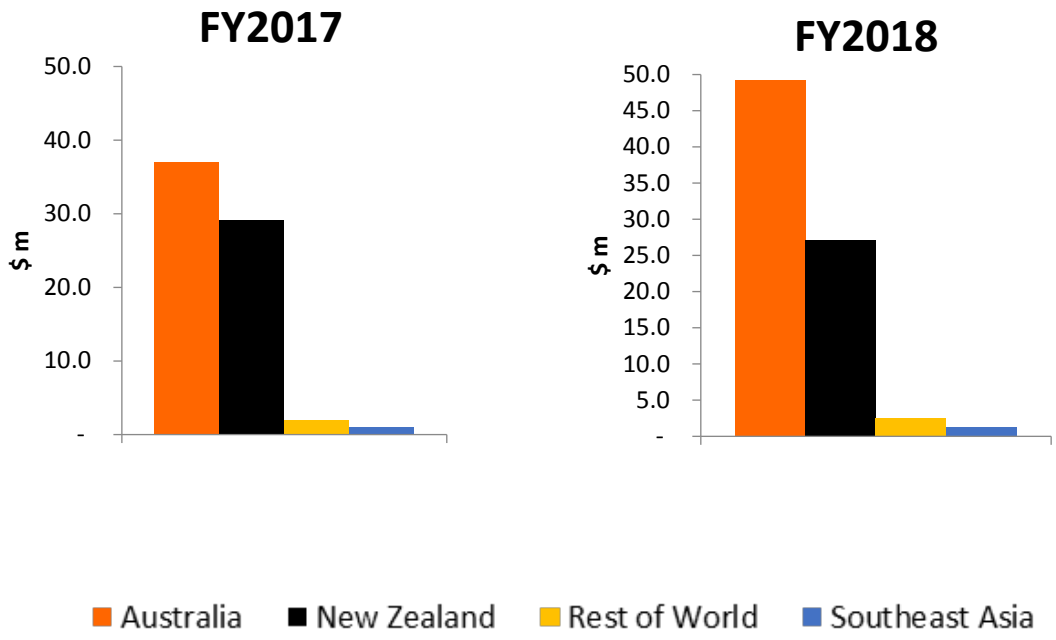
Summary Financial Results

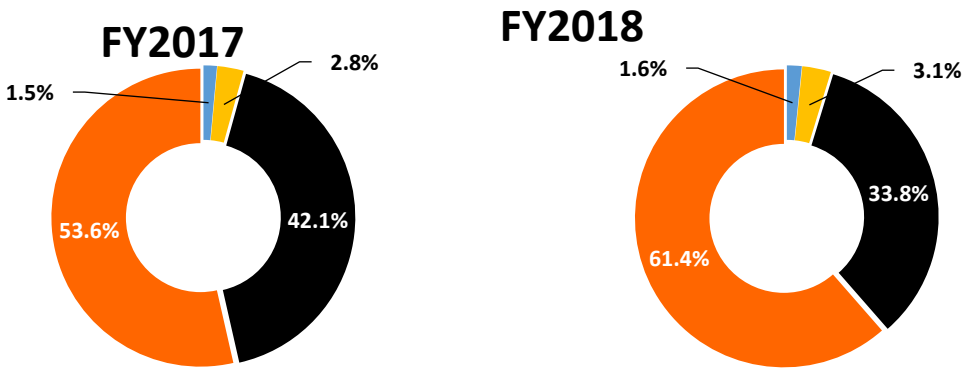
	Year Ended 31 March	
	2018 $'000	2017 $'000
Revenue	**80,071**	**69,205**
Cost of Sales	45,880	43,207
Gross Profit	**34,191**	**25,998**
Other Income	2,235	2,659
Selling and distribution expenses	(28,533)	(25,964)
General and administrative expenses	(8,308)	(5,851)
Research and development expenses	(8,230)	(11,227)
Equity Accounted Loss of joint venture entity	(1,494)	(414)
Operating Loss	**(10,139)**	**(14,799)**

Operating Revenue

Operating Revenue grew 16% to $80.1m for the year ended 31 March 2018 from $69.2m for the year ended 31 March 2017 due primarily to the growth in our primary Australian market.

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





Australia Revenue grew by 33% to $49.2m (PCP $37.1m) and this market now makes up 61% of Group Operating Revenue. With strong growth in its main OTC channel, *Maxigesic* revenues grew by 65% with significant growth from 1 February 2018 following the regulatory shift of codeine based painkillers from OTC to prescription only. Other core products such as the Ferro range, Eyecare range and other pain range also grew well. The Hospital channel again had strong growth and these two channels drove the growth.

New Zealand Revenue declined 7% down to $27.1m (PCP $29.2m) and now represents 34% of the Group Operating Revenue. The decline was due to AFT ceasing the sole supply tender product *Metoprolol* in FY2018. OTC sales recovered this year following the small decline in the Pharmacy channel in the previous year, which is pleasing given the higher margins in OTC products. This

assisted an increase of 19% in gross profit compared with prior year. The Hospital channel had good growth over a wide range of products.

Southeast Asia Revenue grew by 28% to $1.3m (PCP $1.0m) and this market stays steady at 1.6% of Group Operating Revenue. Sales were predominantly in the Singapore market where product registration is generally quicker to obtain. The Hospital channel still accounts for most of the revenue from this market. That said, OTC grew at 48% and we expect more of the growth to come from this channel going forward.

Rest of World Revenue grew by 27% to $2.5m (PCP $2.0m) and this market now makes up 3.1% of the Group Operating Revenue. Most of the revenues are from sales and royalties of *Maxigesic.* For example, sales to the United Arab Emirates have grown by 30%, while in Italy in market sales made by the licensee have grown well. *Maxigesic* is being sold in eight countries outside of Australia and New Zealand (Brunei, Israel, Italy, Malta, Serbia, Singapore, United Arab Emirates and United Kingdom). Launches are also dictated by regulatory timelines which influence the new market timelines. These were negatively impacted by slower than expected registrations in the EU. However these registrations have now been achieved and launches are anticipated to get back on track this current financial year.

Gross Margin

Gross Margin of 43% for FY2018 improved by 5% from 38% for FY2017. The main drivers for the improvement were from the growth in OTC revenues primarily in Australia and to a lesser extent by the OTC revenue recovery in New Zealand. The OTC channel has the highest gross margin. The growth in gross margin is expected to continue as the Australian and Rest of World OTC revenues grow.

Other Income

Licensing Income comprises the milestone payments received from out licensing arrangements we have in our Rest of World markets and the fees we have received from the divestment of non-core hospital products. It is classified in the Financial Statements as Other Income. This remained in the same range at $1.8m (PCP $1.6m), with a combination of new out licensing agreements commencing and milestone payments on existing agreements, together with the divestment fees.

Operating Overheads

Total Research and Development investment reduced to $9.7m (PCP $11.6m). This includes the $1.5m 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 now concluded with strongly positive results.

Selling and Distribution expenses increased to $28.5m (PCP $25.9m). However, these expenses declined as a percentage of operating revenue to 36% (PCP 38%). They comprise primarily the support of OTC products in the Australia, New Zealand and Southeast Asia markets.

General and Administration expenses increased to $8.3m (PCP $5.9m) primarily due to one off legal costs incurred relating to competitor legal action challenging certain *Maxigesic* claims. AFT remains confident of its legal position with the outcome of the claims due during FY19.

Balance Sheet

Total Assets of $55.6m (PCP $58.3m) have reduced primarily due to the investment made into research and development. Working Capital requirements remained the same at $22.9m with close management of inventory levels and debtor management.

The cash position of $6.8m at March 31 2018 (PCP $15.9m) reflects primarily the $12.7m loss due to investment into research and development, the US$5m drawdown on the debt facility and the $1.1m equity raise from the share placement in May 2017.

The Balance Sheet is primarily working capital driven. Intangible assets are growing and are now $5.1m (PCP $2.5m). This year we have capitalised $2.5m of development costs which relate to the new delivery forms of *Maxigesic*. The balance of Intangible assets comprise capitalised patents and trademarks. The investment in the *Pascomer* joint venture entity has increased to $2.1m (PCP $0.6m) with spend of $3.0m on product development.

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 any repayment of the loan prior to its maturity in March 2020 and has made available a further US$5m draw down at the company's option prior to 30 September 2018.

OTC products already launched in FY2017 will continue to 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 were sold in Australia every year. In New Zealand, Medsafe have announced a similar codeine rescheduling which will occur in the 2020 year. This will again offer a further opportunity to expand *Maxigesic* sales in our New Zealand market.

Outlook

We have maintained continuing tight overhead control on fixed costs such as staff numbers and completed the year with a cash balance of around $7M and with many of our expensive Research and Development (R&D) projects such as the *Maxigesic IV* study completed. Our R&D costs are now able to be significantly reduced given that we have concluded much of the development work outlined in our IPO documents.

We will look to moderate our R&D spend in order to achieve a clear path to profitability. We had always targeted break-even in either the FY2018 or FY2019 time periods with the former target dependent upon a significant licensing agreement.

The timing of licensing agreements is always difficult to forecast with certainty. Finalising with a suitable partner is paramount rather than completing an agreement with an unsuitable partner in order to make a pre-announced deadline. However with the increasing sales, increasing gross profit and lower R&D spend, we are confident of break-even in the FY2019 year independent of licensing income from additional agreements.

End of release

For more information:

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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.