

## **CHAIRMAN'S ADDRESS**

At the time of the last Annual Meeting the focus of the company was three fold:

- Set up distribution arrangements for Arthrem in Australia and launch the product
- Complete product development of Artevite and launch it in New Zealand
- Build on New Zealand sales of Arthrem

### **Launch of Arthrem in Australia**

The launch into Australia, particularly New South Wales, took much longer and was much more difficult to implement than expected. A number of parties were approached to represent Arthrem in that market but, despite initial expressions of willingness to do the job, it was extremely difficult to secure a commitment.

It was only through the sustained efforts of Tom Brankin in his role of acting chief executive that the company was able to secure the services of Pharmabroker in Australia. Warehousing and distribution arrangements also took significant time to conclude. The impact of these delays are noted in the Annual Report.

## **Development and Launch of Artevite**

This project was also delayed due to difficulties in finalising a formula to raise the level of acceptability from 70% to over 95% of dogs taking product samples. As noted in the Annual Report the efforts of the in house scientific team led by Dr. Sheena Hunt finally resolved the problem. Packaging and manufacturing delays conspired to push the launch of Artevite out until early 2018.

## **New Zealand Sales**

The operating environment in New Zealand changed significantly in early 2017.

Several competing products appeared on the market, often claiming to be 'exactly the same as Arthrem' but as a single double dose at a cheaper price. Interestingly, our clinical trial, which was referred to by some of these competitors, demonstrated that the optimum dose was one 150 mg capsule twice a day.

At the end of 2016 the company appointed a new marketing agent as the increase in cost of the previous representative could not be justified. Regrettably, the new marketing agent did not perform to expectations and the relationship was terminated at the end of the year.

The combination of these factors resulted in total sales of \$2,293 million, significantly lower than budgeted, and a loss for the year rather than a breakeven outcome.

### **Acting CEO**

On behalf of all shareholders and the directors I wish to acknowledge the contribution made by Tom Brankin by stepping in as Acting Chief Executive for a period of several months. Tom's objectives were to lead implementation of the three primary objectives set for 2017 while a new CEO was recruited. This he achieved without remuneration other than his standard directors' fee and reimbursement of expenses. Thank you Tom.

### **Appointment of new CEO**

In early October 2017 the company welcomed Rene de Wit as the new Chief Executive. Rene brings considerable commercial experience and in mid-February all of that experience was required to weather the storm resulting from the Medsafe Alert.

An early recommendation from Rene was that the company terminate its arrangements with its Arthrem marketing agent and establish an in-

house capability. This process was underway early in the New Year and included travelling representatives and telemarketing. Rene will expand on this initiative and our experience since the Medsafe Alert.

## **Medsafe Alert**

The Medsafe Alert in February this year was a bolt from the blue and has had a significant impact on the company. I will handover to Rene to outline what happened and the company's response to this event.

I wish to thank my co-directors for their considerable personal commitment to the company during the year and to our management team for their continued commitment and achievement of key results.

## **CEO Address**

### **Medsafe Alert 15<sup>th</sup> February 2018**

- The Alert was a complete surprise to Promisia
- There was no prewarning from CARM of the 14 adverse reactions
- The Alert was distributed widely and published in NZ and Australia
- Main stream media quickly published very negative articles both online and in print
- Featured on TV news

- No context was given by Medsafe or the media – reaction rate less than 1 in 14,000 users - considered to be very rare by World Health Organisation guidelines. (reaction rates for Analgesics and Non Steroidal Anti-inflammatories are greater than 1 in 1000)
- Sales of Arthrem literally stopped
- Impact on Arthrem launch in Australia (TV, POS and instore campaign)
- Impact on launch of Artevite in NZ (TV, POS and instore campaign)
- Sales of Arthrem to pharmacies reduced to 10% of expected levels although pharmacies were carrying higher stocks than usual following a recent promotion
- Pharmacies reacted with great caution and a small number stopped selling Arthrem
- Negative coverage significantly affected retail demand
- Refer to handout which gives some context on adverse reactions to other over the counter products

### **What did Promisia do?**

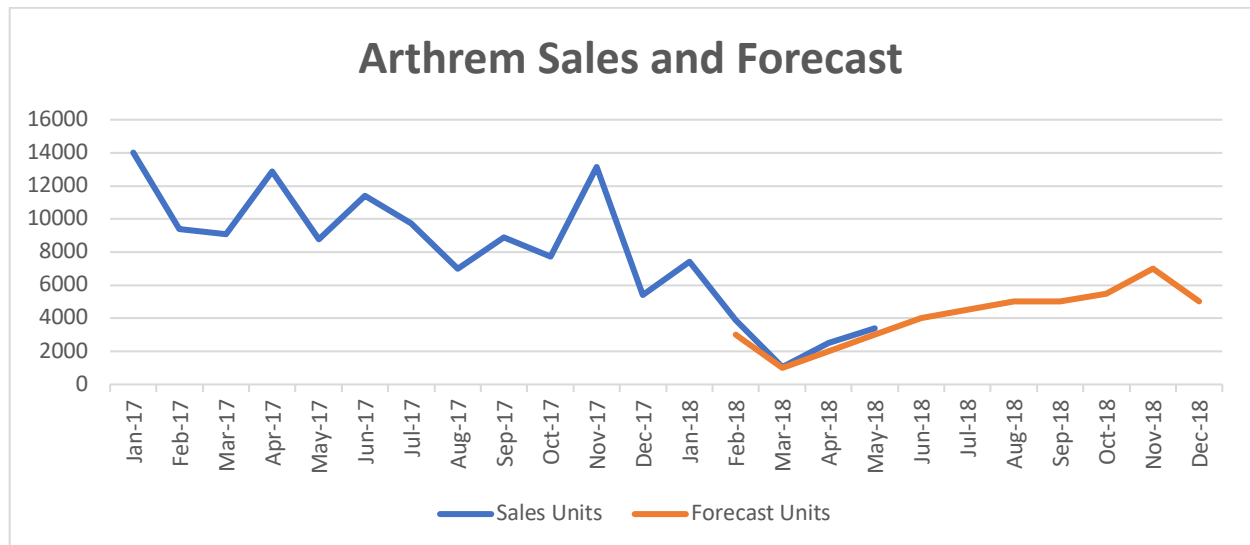
- Worked with PR company to ensure readiness for potential negative media
- Notified all pharmacies, providing context and information to assist staff when talking to Arthrem customers

- This included:
  - Safety information – clinical data
  - Changes to bottle labelling
  - Changes to website information
  - Update point of sale (POS) material
  - Advice for customers - potential Q&As
  - 24/7 0800 call centre providing answers to customer questions
- Complied with Medsafe requests
- Included Natural Products NZ in discussions with Medsafe as this was an industry issue, not just an Arthrem issue
- Ceased TV advertising and other expensive media to conserve cash resources
- Used Promisia telesales team to contact every pharmacy in NZ on a regular basis to assist and support education and sales

### **Results to date**

- Sales began to recover in April on the back of a large marketing and education effort with pharmacies
- Sales in May continued to strengthen and represent approximately 40% of previous levels
- Strong positive support from pharmacies
- Customers who had stopped taking Arthrem are now returning

- Dedicated marketing resources are delivering results and better education to our Arthrem users



## Marketing plan

- Incentive to buy Arthrem at a small discount (May)
- Continue to call all pharmacies each month (Telesales team)
- Focus on sales rep visits to train and support pharmacies
- Positive media campaign to boost online profile
- SEO audit and plan to drive positive web search results
- Introduction of the “Arthrem Health Check” to POS and online/web
- Tile in Green Cross (Unichem and Life Pharmacies) Mailer promoting Arthrem (June)
- Promotion through Green Cross Health Gondola ends and counter stand promotion (July)
- Buy 2 Get one Free with Green Cross promotion (July)

- Staff training to support the “Arthrem Health Check” initiative (Prize for pharmacy staff)
- Counter top sales unit promotion (August)
- Similar promotion with independent pharmacies
- Possible production of a new TV ad and subsequent airing (dependent on funds)

### **Marketing Challenges**

- Early in 2016 there were changes in legislation in the way a dietary supplement could be marketed.
- Testimonials that claimed an improvement to any condition were no longer permitted.
- Claims can no longer be made. Words like “arthritis” and “pain” cannot be used in advertising.
- Positive reviews on platforms like Facebook breach Advertising Standards Authority (ASA), rules if they claim to treat to a condition e.g. arthritis
- International Arthrem websites and Facebook where claims can be made must be geo-blocked for NZ web searches

### **The path forward**

- New approach to marketing is underway
- Any statement written or implied, must be approved by TAPS and the Advertising Standards Authority



- Ensuring that pharmacies have the required tools to educate customers and promote Arthrem
- Providing information to pharmacies so that they can assist potential customers evaluate if Arthrem is right for them e.g. the Arthrem Health Check
- Continue with SEO to drive negative media off the first search pages on Google

### **Staff Changes**

- Sheena Hunt resigned in December 2017 to pursue a more clinical focused role. Promisia was not planning further clinical trials or research in the short – medium term. Two scientists remain in the company (Rene de Wit MSc., Liam Harker MSc.)
- Sales and Marketing
  - Contract with sales brokerage company was ended in December 2017 so that an in-house sales and marketing team could be employed
  - 2 part time telesales staff were employed in Dec/Jan
  - Marketing Manager employed in February (1-2 days per week on the road)
  - Sales rep for Central North Island employed in April

- Auckland north and South Island sales reps on hold until funds allow

**(END)**