



Working to improve your health

NZX and Media release

21 May 2019

AUDITED FINANCIAL RESULTS FOR THE YEAR TO 31 MARCH 2019

AFT Pharmaceuticals poised for strong earnings growth

Highlights

- Revenue increases 5% to \$85.1 million with strong growth in the core over the counter (OTC) medicine portfolio; revenue excluding divested non-core medicines up 14%
- Operating profits of \$6.1 million, a \$16.2 million reversal of the prior year's \$10.1 million operating loss, benefitting from an easing in the research and development programme expenditure
- Operating cash flow rises to \$1.1 million, a sharp turnaround on the prior year's \$9.2 million operating cash outflow
- Maxigesic pain relief formulations now registered in 42 territories up from 32 at the same time a year ago and is licensed in over 125 territories
- Development of key products continues with NasoSURF drug delivery device and Pascomer skin treatment making progress with the US Food and Drug Administration (FDA)
- Negotiations commence to refinance debt with a New Zealand bank at more favourable interest rates and offer the potential for significant savings
- Operating earnings for the year to 31 March 2020 forecast to rise to between \$9.0 million - \$12.0 million

AFT Pharmaceuticals (NZX:AFT, ASX:AFT) today reports a strong rise in operating earnings as it benefits from growth in its main over-the-counter medicine portfolio and the successful conclusion of clinical trials on the key Maxigesic pain relief products.

Revenue for the year to 31 March 2019 increased 5% to \$85.1 million from \$81.2 million in the prior financial year. Adjusting for the divestment of the group's lower margin hospital products to Baxter Healthcare at the end of the 2018 financial year for New Zealand and the start of the 2019 financial year for Australia, revenue increased 14%.

Operating profit rose strongly to \$6.1 million, reversing last year's \$10.1 million operating loss by \$16.2 million, a result that is in line with the guidance given at the start of the financial year.

The result reflected sales growth, tight control of operating costs and lower research and development expenditure following the successful completion of key clinical trials on the Maxigesic intravenous, liquid and tablet formulations.

Operating costs, which exclude financing charges, fell 21% to \$36.9 million from \$46.6 million at the same time a year ago. This included a 69% reduction in research and development expenditure to \$2.6 million from \$8.2 million in the same period last year.

Meanwhile selling, distribution and general administrative expenses fell 8% to \$33.7 million from \$36.8 million in the same period a year ago as the company drove operating efficiencies in sales and distribution, particularly in the second half of the financial year. Losses after tax narrowed to \$2.4 million from \$12.7 million in the 2018 financial year.

AFT Pharmaceuticals Chairman David Flacks said: "We are delighted with the company's progress. The completion of the key Maxigesic clinical trials, the return to generating positive operating profits and cashflow and the continued strong growth in our broad portfolio of OTC medicines represent significant achievements."

"We are now at a pivotal point in our development. We are well positioned to continue to build on the strong position we enjoy particularly in OTC medicines in New Zealand and Australia. We have made good progress in Southeast Asia and we have continued to deliver on the significant out-licensing potential we see for Maxigesic in large international markets."

AFT Pharmaceuticals Founder and Managing Director Dr Hartley Atkinson said: "All of AFT's operating divisions are performing well. The Australian, New Zealand and international operations have all contributed to a positive operating result and we expect the Southeast Asian division to achieve the same in the coming year. We have achieved this growth while maintaining tight control on costs and expect to deliver a strongly improved operating earnings in the coming year."

Summary Financial Results

	Year Ended 31 March	
	2019 \$'000	2018 \$'000
Revenue	85,127	81,176
Cost of Sales	44,397	45,880
Gross Profit	40,730	35,296
Other Income	2,237	1,130
Selling and distribution expenses	(26,540)	(28,533)
General and administrative expenses	(7,202)	(8,308)
Research and development expenses	(2,588)	(8,230)
Equity Accounted Loss of joint venture entity	(521)	(1,494)
Operating Profit / (Loss)	6,116	(10,139)

AUSTRALIA

Sales in Australia increased 2% to \$50.3 million from \$49.2 million in the same period a year ago. Adjusting for the divestments to Baxter Healthcare, revenue grew by 13%. Operating profits rose strongly from \$1.2 million to \$5.3 million.

The main OTC channel grew 11%, while Maxigesic revenues grew by 14% following regulatory changes, effective in February 2018, that saw codeine-based painkillers becoming prescription only medicines.

The shift has caused some disruption to markets, with Australian pharmacies stocking up on Maxigesic in the last quarter of the 2018 financial year in anticipation of this switch. Additionally, consumers stockpiled codeine-based products with some buying up to 12 months' worth of product. However, we believe Maxigesic sales will benefit as pharmacies and consumers run down their stocks.

Sales to hospital channels declined with the lower margin product divestments, but this was partially recovered with the introduction of new hospital products, such as antibiotic Piptaz, which we expect to drive growth in the channel in the 2020 financial year.

NEW ZEALAND

New Zealand revenue fell by 1% to \$26.8 million from \$27.1 million in the same period a year ago, but revenue was up 5% after adjusting for the divestments to Baxter Healthcare.

Operating profit, which includes head office costs, rose to \$0.5 million from a \$2.7 million loss in the same period a year ago. Excluding these Head Office costs, which the New Zealand operation carries for the benefit of all territories, operating profits rose \$4.1 million to \$5.5 million from \$1.4 million in the same period a year ago.

The New Zealand OTC channel grew 16% with strong allergy sales supported by growth in the pain and eyecare categories and new product launches of Vitamin C Liposachets, Maxigesic PE and Novatears. New Zealand also benefitted from a 21% increase in Maxigesic sales.

These gains were offset by the divestments to Baxter Healthcare and the cessation of our sole supply contract of the cardio-vascular drug Metoprolol. Final sales of the medication were made in the prior financial year.

The New Zealand government appears set to follow Australia's lead in the rescheduling of codeine-based products as early as 2020 and we are monitoring developments closely.

SOUTHEAST ASIA

Southeast Asia revenue grew by 66% to \$2.1 million from \$1.3 million in the same period a year ago, reflecting strong growth in OTC revenues including growth in Maxigesic tablets, which launched in Malaysia and relaunched in Singapore with its re-classification to an over-the-counter product.

Our Hong Kong distributor is meanwhile preparing for a launch of Maxigesic in the coming months. The region posted an operating loss of \$0.3 million up from a \$0.7 million operating loss in the same period a year ago and we are confident it will turn in a positive operating result in the 2020 financial year.

INTERNATIONAL

The international division, which is mainly focussed on the out-licensing, registration and enabling the sale (via licensees) of the Maxigesic range of pain relief products, grew revenue by 63% to \$5.9 million from \$3.6 million in the same period a year ago. Operating profit rose to \$0.6 million from a \$7.9 million loss in the same period a year ago reflecting a 87% increase in sales of products and royalties and the reduction in research and development expenditure.

Product	Maxigesic Tablets			Maxigesic IV			Maxigesic oral solution		
	2019	2018		2019	2018		2019	2018	
Territories	2019	2018		2019	2018		2019	2018	
Licensed	125+	125	- %	68	62	10%	122	118	4%
Registered	42	32	28%	-	-	- %	-	-	- %
Sold in	20	10	100%	-	-	- %	-	-	- %

We have now out-licensed Maxigesic in its various forms in more than 125 territories. To date our focus has been on the Maxigesic tablet form. Key tablet out-licensing additions over the last year included Russia and Switzerland. We are continuing to progress licensing discussions for the oral form in significant territories such as the USA, Canada, Germany, South Korea and Latin America.

Following the successful conclusion of clinical trials, we are now able to turn our attention to the hospital-based intravenous form, Maxigesic IV. In the 2019 financial year, we out licensed Maxigesic IV in to 6 new countries including Mexico and South Korea.

A key target in the coming year is to increase the number of countries in which Maxigesic IV is licensed, which in turn will generate further income prior to these countries registering a product, making sales and AFT earning royalties. At balance date Maxigesic IV was licensed in 68 countries up from 62 the same time a year ago.

MAXIGESIC REGISTRATIONS

The registration of each of our products in each of these territories is the next and most consequential step towards commercialisation of our intellectual property. Registrations now stand at 42, up from 32 in the same period a year ago. They are for the tablet form of Maxigesic, leaving a significant pipeline of opportunities still to be developed.

The first Maxigesic IV registration, which will be in a market that will facilitate registration in other territories such as the Middle East and Southeast Asia, is expected during the 2020 financial year.

We have meanwhile completed the clinical development work on the oral liquid form of Maxigesic and the first regulatory filings have been made in 23 regulated markets. Finally, we are aiming in the 2020 year to file for registration of a faster dissolving version of Maxigesic tablets. This follows our licence from a US company of a rapid solution forming technology.

MAXIGESIC SALES

Maxigesic in its various forms is now for sale in 20 countries, up from 10 in the same period last year. Sales in the established United Arab Emirates and Italian markets grew at more than 50% over the 2019 financial year. These sales were supplemented with launches in to new markets, including Ireland, Iraq, El Salvador and Malaysia. Meanwhile, we are processing orders for a further nine countries.

"Exact launch timings - and the flow of royalties to AFT - are difficult to forecast given hurdles ranging from regulatory issues to matters specific to licensees or distributors. However, regardless we see ongoing progress, which will contribute and drive sales growth going forward," Dr Atkinson said.

"A further income source as sales grow are sales milestone payments, which exist in most of our licensing agreements. For example, the first sales milestone in the European Union of €500k on the Maxigesic tablet form was triggered in April."

PRODUCT DEVELOPMENT

Development of the Maxigesic dose forms outlined at the time of our 2015 IPO have been largely completed. In the 2019 financial year the most important development milestone was the successful completion of the large study on Maxigesic IV. Some additional studies specific to US registration requirements for the product are underway. Meanwhile, further development work continues on the sachet form and we are working on other line extension ideas for the drug platform.

Our NasoSURF nasal drug delivery device is undergoing some redesign following human factor studies. These have been largely completed and we are now targeting a type IIa medical device filing with the FDA this financial year. Market research in the USA and UK identified that our first targeted indication for the device has potential to deliver AFT a significant income stream.

We have completed the initial development work on Pascomer, a treatment for a hereditary skin condition. It offers the potential to access a market worth US\$400 million to US\$450 million in sales. We have opened an Investigational New Drug (IND) application following a successful FDA meeting, which allows us to initiate our first multi-center international clinical study on the medication.

Presently our joint venture partnership DSLP has funded all the development work to date and is funding the first clinical study. We are however actively seeking to out-license the product with interested parties for at least one major territory to minimise our expenditure on this project.

BALANCE SHEET

AFT remains well funded, completing the year with a cash balance of \$6.9 million, up from \$6.8 million a year ago. Total assets of \$63.6 million, up from \$56.6 million a year earlier, have increased primarily due to increased working capital and the capitalised components of the investment made into research and development and registrations.

At 31 March 2019, we had an interest-bearing loan from specialist healthcare investor CRG of \$41.8 million up from \$30.7 million at the same time a year ago. The loan, which attracts an interest rate of 13.5%, matures at the end of the 2020 financial year.

Although CRG has offered to extend the loan, we have begun negotiations with local banks to refinance our facilities at more attractive rates. Reflecting the positive outlook for the business we are confident we will achieve that goal.

As an interim step and to reduce the cost of interest, we have on 21 May 2019 established a \$15 million interim facility, which matures on 31 March 2020, from a local commercial bank utilising the existing security arrangements. We will be repaying US\$9.5 million of the CRG loan using this facility in the next few days.

OUTLOOK

“We see significant potential for our products in global markets. The timing is always difficult to forecast with certainty, not least because it is important that we find the right partners to take our products through to commercialisation,” Dr Atkinson said.

“At the same time, we continue to develop and commercialise line extensions of the Maxigesic range and other products such as NasoSurf and Pascomer. Once achieved, all have the potential to generate significant shareholder value and improve healthcare outcomes for patients around the globe.

“We have progressed further down the pathway to realisation of this goal since last year which is pleasing but there remains significant work to be done to reach our true potential and fully reward our shareholders.

“Despite these challenges we are looking to the remainder of the 2020 financial year with confidence. We are targeting continuing positive cashflow and an operating profit of between \$9 million - \$12 million. We will update the market at our annual meeting in August.”

For further information:

Investors

Dr Hartley Atkinson
Managing Director
AFT Pharmaceuticals
Tel: +64 9 488 0232

Media

Richard Inder
The Project
+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 the rest of the world.