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FINANCIAL RESULTS FOR THE SIX MONTHS TO 30 SEPTEMBER 2024

AFT reports record sales and invests for growth

AFT Pharmaceuticals (NZX:AFT, ASX:AFP) today reports record sales for the six months to the end of September 2024 led by double digit sales growth in Australasia despite subdued economic conditions.

Both International and Asia sales were lower due to specific significant one-off factors, but a strong recovery is forecast in the second half of the financial year. These factors included a temporary one-off reduction in demand as several of our largest customers reduced stock in response to the improving supply chain outlook. In Asia, a doctors strike in South Korea, which has now been resolved, significantly impacted Maxigesic IV sales.

In line with prior years, AFT expects a strong recovery in the second half of the year, with the results assisted by the resolution of the demand disruptions and new product launches. However, given the trading challenges of the last six months, the company expects its operating profit for the year to the end March 2025 to range between $15 million to $20 million[1].

HIGHLIGHTS

- Half-year operating revenue up 4% to $86.7 million led by growth in the core Australasian business
- Revenue in International and Asian markets dropped largely due to short term, significant one-off reductions in demand from several of our largest customers
- Operating loss of $1.8 million down from operating profit of $3.3 million
- EBITDA[1] loss of $0.7million down from EBITDA gain of $4.1million. Net loss after tax of $2.4 million down from net profit of $1.8 million
- Balance sheet strong with net debt[2] down 37% to $18.9 million from $30.6 million, and working capital reduction with lowering inventory cover post pandemic supply disruptions
- Momentum expected to accelerate in H2 FY25 assisted by product launches in multiple markets.
- FY 25 guidance for operating profit to range between $15 million to $20 million[1].

  (All comparisons are to H1 FY24 unless otherwise stated)

AFT Pharmaceuticals Chair David Flacks said: "The first half of the financial year has underscored the value of our strategy to diversify our business across geographies and therapeutic categories. We remain confident of a strong finish to the year, and while our outlook is lower than the expectations that we had at the start of the year, we believe

[1] This range is lower than guidance given at the company's annual meeting in August for an operating profit of $22 million to $25 million.
[2] Excludes related party loan

we will deliver a result that will further extend the company's long-standing record of growth."

Co-Founder and Managing Director Dr Hartley Atkinson said: "The demand disruptions of the last six months, primarily caused by two significant one-off events have overshadowed what is a resilient underlying performance in both the core Australasian markets and further afield.

"We have benefited from double digit revenue growth in Australasia. In the markets affected by the destocking we have seen the in-market sell through continuing at a similar rate seen in prior periods.

"We have meanwhile made significant strategic progress in the new business hubs in North America, the United Kingdom, Europe, Singapore, Hong Kong, and South Africa, where we are investing to capture the significant potential we see for our broader portfolio of medicines.

"The sales disruptions have impacted earnings in the six-month period. However, with accelerating sales, we remain confident of a recovery of momentum in the second half of the year and going forward in line with prior years Encouragingly, October International and Asia sales were double prior year"

"During the half year we concluded licensing negotiations for Maxigesic IV for Brazil and China so that we now cover nine of the top ten global pharma markets. We are seeing increased interest in the company's products with 19 separate licensing negotiations currently in progress, with one of these anticipated to be concluded shortly," Dr Atkinson said.

"In North America we have launched Maxigesic IV[2] and are readying for the launch of the rapid dissolving form of the medication around year end, alongside several of our OTC medicines. The planned launch of Crystaderm in China by our distributor Hainan Haiyao Co. later this year will also represent an important milestone for the company.

"We continue to see strong interest from China for a number of our products."

FINANCIAL RESULTS
Revenue from the sale of products and royalties grew by 6.0% to $86.6 million from $81.7 million.

Growth in the Australasian business – led by the OTC portfolio of medicines - making the largest contribution to the increase. Revenue in Australasia was up a pleasing 17% to $76.8 million.

These gains were diluted by the disruption to sales in the International and Asian businesses. The net impact of these one-off events was a combined reduction in income from product sales and royalties in these two markets from $16.3 million to $9.8 million.

Total revenue, which includes licensing income of $0.2 million, rose 4% to $86.7 million from $83.6 million.

[2] In the US and several other markets Maxigesic is sold as Combogesic, however for simplicity we refer to the medicine in this release with the name familiar to Australasian audiences.

Gross Margin on product sales and royalty remained steady at 41.6%. The overall gross margin reduced to 41.7% from 43.0% due to the lower license income.

Operating expenses increased with start-up funding for the new business hubs in North America, the United Kingdom, and South Africa; marketing for new products and markets; and an increase in research and development expenditure.

The resulting operating loss was $1.8 million, down from an operating profit of $3.3 million in the same period of the prior financial year. For the same reasons EBITDA[3] fell from $4.1 million to a loss of $0.7 million, while net profit after tax fell from $1.8 million to a loss of $2.5 million.

Further detail on the performance of AFT's individual markets is contained in our interim report also released to the NZX and ASX today and available at the following link: https://investors.aftpharm.com/Investors/

RESEARCH AND DEVELOPMENT

Research and development expenditure (expensed and capitalised) in the half year period rose to $8.9 million from $7.0 million in the same period a year ago, all of which has been funded through earnings.

The development portfolio also offers the company significant opportunities in international markets either through out licensing or through distribution in markets where we have established a presence. Collectively the medicines in the portfolio open multibillion addressable markets to the company. Reinforcing this potential is the existing strong interest in both the companies recently developed products and those closer to commercialization.

Just after the balance date we rounded out the research and development programme with the addition of a significant late-stage commercialization project for a novel injectable medicine containing a patented New Chemical Entity (NCE). Following the addition of this project the programme now extends to a range of products across the dermatology, eyecare, pain and drug delivery categories.

The therapeutic application of the NCE presently remains confidential, but it is targeted at a global market that is forecast to grow from around US$3 billion in 2024 to more than US$7 billion in 2033. The medicine will be delivered as a single dose for the majority of patients, offering potential advantages over existing treatments, which generally require two injections.

The conditional agreement envisages AFT undertaking a final confirmatory Phase III clinical trial of the medicine involving approximately 1,000 patients to confirm the efficacy of the medicine and its safety. The company has already received significant interest from potential licensing partners including China, the world's second largest pharma market.

[3] EBITDA is non-GAAP measure of earnings before interest tax depreciation and amortisation. It is defined and reconciled to GAAP measure of net profit after tax in the company's Interim Report and the investor presentation released to the NZX and ASX today.

The timeframe for the commercialisation of these projects varies between the long term such as our topical Keloid Scars project to the more immediate such as NasoSURF, Pascomer and the new novel injectable project.

BALANCE SHEET
AFT remains well funded. Net debt[1] at the end of September 2024 was $18.9 million, up slightly from the $16.2 million as at the end of March, but down from $30.6 million at the same time a year ago.

Reflecting the improving supply chain situation, consistent with some of our international customers, we have further reduced inventory now at $47.9 million down from $49.1 million at the end of March 2024 and $54.6 million at the end of September 2023.

OUTLOOK
Dr Atkinson said the company is expecting revenue growth for the year to the end of March 2025 to accelerate in the second half in line with patterns established in prior years. This growth is expected to be assisted by a strong program of new product launches especially in International markets, building momentum in the new markets, and the normalisation of demand following the two unexpected, but significant events seen during the first half of this financial year.

We now expect to deliver an operating profit for the year to the end of March 2025 to range between $15 million to $20 million. Finally, Directors continue to expect to declare a dividend for the full year. Our focus is now on next annual rolling revenue target of $300 million annual revenue which we aim to achieve by the end of FY2027.

Released for and on behalf of AFT Pharmaceuticals Limited by Malcolm Tubby, Chief Financial Officer.

For more information:

Investors
Dr Hartley Atkinson
Managing Director
AFT Pharmaceuticals
Tel: +64 9488 0232

Media
Richard Inder
The Project
Tel: +64 21 645 643

About AFT Pharmaceuticals
AFT is a growing New Zealand based 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[4]. Our business model is to develop and in-license products for in our markets of Australia, New Zealand, Singapore, Malaysia, Hong Kong, USA, Canada, EU ex Ireland and UK, and to out-license our products to local licensees and distributors to over 125 countries around the world. For more information about the company, visit our website www.aftpharm.com.

[1] excludes related party loan