



Market Release

3 August 2018

Chairman's address delivered at AFT Pharmaceutical Limited's 2018 Annual Meeting, Milford Cruising Club, 24 Craig Road, Auckland, New Zealand, at 10.30am (NZT) on Friday 3 August 2018

The financial year ending 31 March 2018 saw us make continued significant progress with a number of our strategic objectives.

Our headline numbers show an increase in operating revenues of 16% to \$80.1m with additional licensing income of \$1.8m. And our gross profit grew by 32% to \$34.2m with margins increasing to 43% from 38% in the last financial year.

Our largest market is Australia where we saw the most significant growth from \$37.1m in FY17 to \$49.2m in FY18, a 33% increase.

We also made good progress with product development and registrations. Hartley will talk much more about this in his presentation – but we now have Maxigesic licensed in 125 countries – and that is up from 110 at the end of FY17 – and we are registered and selling Maxigesic in 10 countries.

I would just like to talk about timing. One thing I have learned being in the pharmaceutical industry is that everything does take time.

In relation to Maxigesic for example, first we negotiate a licensing agreement with a distributor in a country or region. This can take considerable time and we want to make sure that we have the right partner to work with. We would generally get an upfront licensing fee upon signing - and that will be dependent on the size of the deal and a number of factors. Then within each jurisdiction - we need to register the product before it can be sold in that region.

Generally, it is the registration timeline which is the most difficult to predict. It is a complex task and can take anything from 6 months to 3 years – and this varies from country to country. There are multiple components to consider for each registration – clinical, safety, manufacturing – and often our team has to respond to hundreds of enquiries from the regulators.

The key here is that we still have a huge opportunity as we extend the number of countries where we can sell Maxigesic.

Shareholders should know that we, at AFT, have a small but incredibly efficient regulatory and development team in-house doing amazing work – which often in larger pharmaceutical organisations might comprise hundreds of people.

We are making great progress but, as I said, it does all take time.

Another important item I want to mention is that shareholders should know that we have put and are putting to very good use the capital we raised in the IPO. We are doing exactly what we said we would do in our IPO documents – and your board and AFT is not wavering from that. You will see from the financial statements that we have retained earnings of negative \$57m and that has been spent on clinical trials, R&D and market development. For example, in FY18 we were running 7 clinical studies in 7 countries involving 900 patients. AFT is going to reap the benefits of that expenditure over the next twelve months and beyond.

We had hoped that towards the end of the last financial year that we might have secured one or two significant licensing deals – but we are being very careful to ensure that we sign with the right partners. We are not prepared to sign-up for the sake of doing the deal – we want to sign-up with the most suitable partners who can work with us in the relevant jurisdictions. As Hartley will explain we are working with a number of parties who are doing due diligence currently.

As previously indicated to the market, we are targeting reaching breakeven by the end of this financial year, and we remain confident of doing so irrespective of whether we receive any additional licensing income this year.

So, in looking forward, AFT's strategy remains essentially the same:

- Firstly – to continue registration of our key products globally;
- Secondly – to enter into licensing agreements with strong partners globally; and
- Thirdly – to continue to grow our Australasian business.

Your Board has just had two interesting and productive days working with the Executive Team discussing our strategy and how we can best execute on this. Hartley will provide some more detail on some of these initiatives in his presentation.

Shareholders will be aware of the continued focus by Boards on maintaining high standards of corporate governance – and your Board considers these issues at each board meeting, working through best practice governance requirements and principles. We regularly review and assess compliance against best practice and disclosure requirements – and in doing so – we refer not only to the NZX Corporate Governance Code, but also the ASX Best Practice Recommendations. As you will have seen – we have produced our own 2018 Corporate

Governance Statement, explaining our governance practices, which is available on our website.

As part of our governance responsibilities, we are embracing ESG criteria – that is environmental, social and governance. We are committed to “sustainability”, where possible, and you will see on page 25 of our Annual Report that we have referred to the Sustainable Development Goals which initiatives are set up by the United Nations. We will commit further to these goals as we continue to develop our ESG framework.

And with this in mind, we were delighted to have some of our New Zealand sales team visit Fiji last year to distribute excess inventory to some less fortunate kids in Fiji – particularly to treat lice – which is still a major issue in Fiji. We will look to do something similar this year and will work with our employees to determine what might be most appropriate.

Your Board is very conscious that our share price is hovering below the IPO listing price and shareholders can be assured that we are working very hard to execute on our strategies and have that value reflected in the share price. And, of course, your directors are all significant shareholders in AFT so we, like you, are very keen to see that happen. With that in mind I want to confirm to shareholders that directors’ fees have not risen since the IPO in December 2015 and I want to assure shareholders that directors will not seek to increase directors’ fees until AFT returns to profitability.

Before handing over to Hartley I would like to thank shareholders for your ongoing support and patience. We are working hard to deliver on our strategy and we remain positive and excited about the opportunities ahead.

Thank you also to our excellent management team and my personal thanks to the other members of the Board for their input and support.

In addition, I would like to confirm that CRG, one of AFT’s majority shareholders, have confirmed they remain highly supportive of AFT and would like to offer the company a new five to six-year term to extend the existing capital facility and expand the available capital to US\$40m - US\$50m. The company will update the market if it agrees to take up this option.

ENDS

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