

July 14th 2022



AFT Pharmaceuticals (AFT)

The company will hold its Annual Shareholders Meeting at **10.30am Friday 5 August 2022.**

The location is **Milford Cruising Club, 24 Craig Road, Milford, Auckland.**

The meeting will also be webcast. You can join the webcast [here](#). **Please note you cannot vote or ask questions on the webcast.**

Company Overview

The company was founded by Dr Hartley Atkinson in 1997 and listed on the NZX in 2015. It is also listed on the ASX. It manufactures and distributes a range of pharmaceutical products, with its most significant product being *Maxigesic*. It is also developing *NasoSURF*, a drug delivery product, and *Pascomer* - a drug to treat Facial Angiofibroma's in Tuberous Sclerosis.

Maxigesic is licensed in over 100 countries and registered in 52. Maxigesic tablets are sold in 46 countries. Maxigesic IV solution is licensed in over 100 countries. The company has offices in New Zealand, Australia, Malaysia, Ireland, and Singapore. It has license and distribution agencies in other countries. Manufacturing of Maxigesic tablets is undertaken in two locations in India, two locations in China, with a European location is being finalised. The Intravenous and Oral Solution are both manufactured in Europe. Further locations will be introduced to ensure manufacturing capability is not compromised.

Current Strategy

The company's strategy is to develop pharmaceuticals that make a real difference to people's health.

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Key

The following sections calculate an objective rating against criteria contained within NZSA policies.

Colour	Meaning
G	Strong adherence to NZSA policies
A	Part adherence or a lack of disclosure as to adherence with NZSA policies
R	A clear gap in expectations compared with NZSA policies
n/a	Not applicable for the company

Governance

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Directors Fees	G	See below.
Director share ownership	A	See below.
Executive Remuneration	A	See below.
Golden parachutes/handshakes	A	See below.
Director Independence	G	A majority of Directors are independent.
Board Composition	A	See below.
Director Tenure	A	See below.
ASM Format	A	Physical meeting. See below.
Independent Advice for the Board	A	See below.

Directors Fees: Disclosure is generally excellent. There is a provision for retirement benefits for Directors within the company's constitution, however, the company clearly shows that no share-based payments or other benefits are paid to directors.

Director Share Ownership: There is no disclosure as to whether Directors are required to own shares. NZSA policy is whilst this should be encouraged it should be up to each Director to decide depending on their personal circumstances.

Executive Remuneration: The CEO is paid a base salary and short-term incentive (STI) both paid in cash. There is no long-term incentive (LTI) - understandable given that the CEO is a major shareholder.

NZSA encourages fulsome disclosure in relation to any incentive payments made to the CEO, including disclosure of measures (or measure 'groups'), weightings, targets and the level of achievement associated with any awards.

AFT Pharmaceuticals clearly disclose the measure groups and metrics that determine the STI award, and the total level of STI paid vs potential (calculated at 75%). We would still prefer to see further disclosure in terms of methodology (weightings, level of achievement for each measure group).

Golden parachutes/handshakes: In the interests of transparency, NZSA believes there should be explicit disclosure around the severance terms associated with the CEO, including whether specific termination payments are offered. We believe that such payments are unlikely, given that the CEO is also a major shareholder, but would appreciate clearer disclosure in future.

Board Composition: Generally good disclosure, although the Annual Report does not include a skills matrix that attributes individual skill sets to Directors to demonstrate how they contribute to the governance of the company.

The nature of the company's board indicates a strong commitment to thought and experiential diversity. We also note the thorough disclosure of 'representative' yardsticks, including gender, age and ethnicity.

Director Tenure: NZSA looks for evidence of ongoing succession or ‘staggered’ appointment dates that reduce the risks associated with effective knowledge transfer in the event of succession. We also prefer a term maximum of 9-12 years, unless there are exceptional circumstances that may apply.

We note two of the independent Directors, Jon Lamb and John Wilson, have served since September 2012. We would expect some indication of future tenure and succession plans, in a manner that minimises succession risk for shareholders.

The longest-serving Director (and largest shareholder), Hartley Atkinson, is also the founder of AFT Pharmaceuticals. NZSA recognises the unique value and energy that a founder-shareholder brings to a Board.

ASM Format: NZSA prefers ‘hybrid’ ASM’s (i.e., physical, and virtual) as a way of promoting shareholder engagement while maximising participation. We note it is not disclosed if the Lead Audit Partner attends the ASM.

Independent Advice for the Board: NZSA looks for evidence, through disclosures, that a Board has access to appropriate internal and external expertise to support board assurance activities. We also look for evidence that Boards are across their risk management responsibilities.

We note that the annual report provides good disclosure of AFT’s “ESG Materiality Matrix”, highlighting key sustainability risks for the company. We also observe that the Board has a “Product Development Oversight” Sub-Committee, as a means of governing product development risk for the business.

However, the Annual Report does not summarise key business or operational risks (although key risks are able to be inferred). There is no disclosure as to the extent to which assurance staff within AFT have unfettered access to the Board. There is also no disclosure as to the extent to which the Board is able to seek internal or external advice to support decision-making.

Audit

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Audit independence	G	Good disclosure.
Audit rotation	A	See below

Audit Rotation: Whilst the company ensures the Lead Audit Partner is rotated at 5 years as required by the NZX Listing Rules, it does not disclose if the Audit Firm is rotated at 10 years. NZSA also expects disclosure of the appointment dates of the Lead Audit Partner and Audit Firm to improve transparency for investors.

Ethical and Social

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Whistleblowing	G	Good disclosure
Political donations	G	No donations are made.

Financial & Performance

Policy Theme	Assessment	Notes
Dividends and Imputation	n/a	There was no dividend paid.
Capital Raise process	n/a	There was no capital raising.
Takeover or Scheme	n/a	

AFT's share price fell from \$4.60 to \$3.78 (as of 20th June 2022) over the last 12 months – an 18% decline. This compares slightly unfavourably with the NZX 50 which declined by 16% in the same period. The capitalisation of AFT is \$396m placing it 56th out of 132 companies on the NZX by size and makes it a mid-sized company.

Metric	2022 (\$m)	2021 (\$m)	Change
Capitalisation	\$396m	\$481m	-18%
Revenue	\$130.3m	\$113.1m	15%
NPAT	\$19.8m	\$7.9m	155%
EPS	\$0.19	\$0.074	155%
Inventory Turnover	2.04	2.28	-11%
Gross Margin	47%	43%	10%
PE Ratio	20	60	
Current Ratio	2.67	2.12	26%
Debt Equity	1.15	1.87	-39%
Operating CF	\$14.2m	\$0.8m	n/a
NTA Per Share	\$0.18	\$0.04	382%
Equity Per Share	\$0.54	\$0.35	55%

Revenues were up 15% to \$130.3m and with gross margins increasing to 47%, NPAT increased by 155% to \$19.8m. EPS were 19 cents per share leading to a PE of 20. This PE is substantially lower than last year's 60 and falls within normal ranges.

On the basis of this improved profit figure and decade long growth, the company announced the commencement of a dividend policy on [page 9 of the annual report](#) stating:

“Now, reflecting our confidence in the business’ ability to build on its decades long record of growth, we have today announced the commencement of a dividend policy. Commencing in relation to the 2023 financial year, the Board intends, all other things being equal, to pay a dividend in the 20 – 30% range of normalised net profit after tax³ on an ongoing basis.”

Operating cash flows were up significantly to \$14.2m albeit last year's figure was impacted adversely by increased inventory levels. These higher-than-normal inventory levels have been maintained as a buffer against ongoing disruption in the global supply chain. Inventory turnover decreased marginally to 2.04 (\$0.8m).

AFT's NTA is at \$0.18, and shares trade at a huge premium to NTA.

The financial ratios are stable with the current ratio at 2.67, and the debt equity ratio continues to improve, down another 39% to 1.15.

During their financial [results commentary on 23rd May](#) the company provided forward guidance:

"On this basis we now expect operating profit for the year to 31 March 2023 to range between \$27 million and \$32 million. "We look forward to providing a further update at our annual meeting in August."

Extrapolating this operating profit expectation for FY 23, this would place AFT on an approximate PE of between 13 and 15 using today's prices.

Resolutions

1. That the Board is authorised to fix the auditor's remuneration for the coming year.

This is an administrative resolution.

We will vote undirected proxies **IN FAVOUR** of this resolution.

2. To re-elect Dr Hartley Atkinson as a Non-Independent Executive Director.

Hartley Atkinson was appointed to the Board in 1997 and is the Founder, CEO, and a majority shareholder. Before founding AFT, he worked at Swiss multinational pharmaceutical company, Roche, for eight years where he held positions as Sales & Marketing Director, Medical Director, Product Manager and Medical Manager. Prior to his work at Roche, he was a Drug Information Pharmacist and Researcher at the Department of Clinical Pharmacology, Christchurch Hospital. He holds a

Doctorate in Pharmacology, a Masters in Pharmaceutical Chemistry with distinction, and a Degree in Pharmacy, all from the University of Otago.

We will vote undirected proxies **IN FAVOUR** of this resolution.

3. To re-elect Jon Lamb as an Independent Director.

Jon Lamb was appointed to the Board in September 2012. He has been involved with AFT since 2004 initially as a consultant. He formerly held roles at Beecham including CEO in New Zealand and Marketing Manager in both Australia and South Africa. He has also held roles as Chief Executive Officer of Nylex in New Zealand, Managing Director within the Rural Division of Fletcher Challenge, Director of Southland Frozen Meats and Marketing Director of the New Zealand Kiwifruit Marketing Board. More recently, he was a Director of Virionyx, a New Zealand company that developed an antiviral drug designed to combat AIDS. He was Deputy Chair of Australian diagnostic company ATF Group that developed a real time tool for measuring the Hepatitis B virus in individual patients.

NZSA supports his re-election, given his relevant functional experience. However, we expect disclosure of his future succession plans.

We will vote undirected proxies **IN FAVOUR / AGAINST** of this resolution.

Proxies

You can vote online or appoint a proxy at <https://www.investorvote.com.au/>

Instructions are on the Proxy/voting paper sent to you.

Voting and proxy appointments close **10.30am Wednesday 3 August 2021.**

Please note you can appoint the Association as your proxy. We will have a representative attending the meeting.

The Team at NZSA