



Working to improve your health

**AFT Pharmaceuticals
2021 Annual Meeting
Milford Cruising Club
Friday, 6 August 2021**

Chairman's address

[Slide 6: AFT extended its growth record despite Covid-19]

It is a great pleasure once again to be standing before you to report on the past year and our outlook for the year ahead and beyond.

I clearly remember the evening prior to last year's annual meeting when at about 9pm the Prime Minister announced a lockdown for the next day and we had no choice but to postpone the meeting and hold it virtually.

These are indeed strange times and there is no doubt that the pandemic has impacted the entire global economy.

Although the pharmaceuticals and healthcare industries should be relatively protected from the general ebb and flow of economic activity given healthcare needs are fairly constant, nevertheless, when faced with a global event such as COVID-19, it is unlikely that any company is able to escape unscathed.

That said, we are pleased with how AFT has performed during this period and while we bear some battle scars, AFT is emerging from this as a stronger and more resilient business.

Let's start with the positives.

First, AFT has once again extended its long-standing record of year-on-year growth. As this slide shows, revenue has grown at a steady pace over the last two decades.

In the most recent decade, we have delivered a compound annual growth rate of 13%.

We have delivered sustainable growth by identifying health needs and developing and distributing clinically proven solutions to improve health outcomes in our markets.

This remains our focus for the year ahead and beyond, and we are confident it is a strategy that will continue to drive increases in shareholder value in the future.

However, these top line results do not reflect the many pandemic-related disruptions we have faced.

Hartley will talk to these points in more detail, but I do just want to emphasise these issues up front.

We have had to overcome significant supply disruptions, delays to product launches, delays in obtaining regulatory approvals, disruptions to clinical trials and delays in finalising licensing and distribution agreements.

Pandemic-related lockdowns, travel restrictions and overseas government-imposed limits to medicine supply also disrupted sales through our Over the Counter, Hospital and Prescription channels.

The financial effects of the pandemic are most noticeable in the operating profit result, which was lower than the prior year for the first time in four years at \$10.7 million.

However, due largely to our resilient performance over the year and the refinancing of our debt at the start of the financial year at much more attractive rates, we have more than doubled underlying net profit after tax to \$7.7 million.

This is a record to be proud of and it reflects AFT's clear focus.

[Slide 7: AFT improved its financial strength]

Despite the challenges of Covid, AFT has grown in strength in the last year.

Total assets and shareholders' equity have increased considerably, while we have reduced net debt to \$35 million.

The refinancing we undertook at the beginning of the financial year, reduced our interest costs from nearly \$7 million in FY2020 to \$3.4 million in the last financial year and operating earnings cover these costs by more than three times.

We took the decision to invest approximately \$10 million into inventory because we foresaw the potential for global supply chain disruptions. In hindsight, this has been a good decision.

We intend to maintain these elevated levels of working capital until we are confident these disruptions have been resolved.

I should add that AFT showed its agility and ability to respond quickly to the pandemic by introducing products such as face masks, developing our e-commerce offering, extending our lipo sachet products and developing our Crystawash extend product range.

The board continues to target debt levels of \$25 million to \$30 million and it remains our intention to consider a dividend policy once we have reached that level.

[Slide 8: Governance evolving as AFT extends its global reach].

AFT is now looking ahead, beyond the current turmoil to a time when the world has overcome the current challenges of the pandemic.

The future we see is a company with:

- a larger and stronger business with an expanded product portfolio in our core markets in Australasia,
- a growing presence in Asia; and
- a significantly expanded international business founded on our family of Maxigesic pain relief medicines, but also including new products such as Pascomer and our nasal nebuliser NasoSURF.

Reflecting this vision, the board has developed (and periodically reviews and updates) a comprehensive skills matrix to inform succession planning.

The matrix considers each director's experience against identified industry specific and broader governance-related skills. Industry-specific skills identified as being particularly relevant include:

- Global pharmaceutical industry experience
- Pharmaceutical regulatory and ethics experience
- Pharmaceutical manufacturing and quality
- R&D product development for drugs and devices
- Commercial operations experience – both domestic and international; and
- Pharmaceutical sales and marketing.

A summary of this matrix will be shared in our next annual report.

In line with our evolving needs, we have recruited two new independent directors with the skills and experience to help us on that journey.

Anita Baldauf comes to AFT with broad international experience in fast moving consumer goods and corporate finance, having gained experience with multinationals such as Nestlé and L'Oréal.

Ted Witek brings to AFT more than three decades of international clinical development and leadership experience in the pharmaceutical industry. He also has an in-depth understanding of North American pharmaceutical regulators and markets.

You will hear more from Anita and Ted later in the meeting, but on behalf of shareholders I want to thank you both for the way you have already contributed to the board and AFT in the short time that you have been involved.

Ted and Anita replace Nate Hukill, who retired in June last year, and Jim Burns who today retires from the board after nearly seven years as an independent director.

[Slide 9: Jim Burns retirement speech].

Jim has played a key role in AFT's development, assisting the company through its initial public offer, our listing on the NZX and ASX, and our international expansion.

He has prepared a short video address, and we would now like to play that for you.

[Slide 10: Jim Burns retirement speech video].

[play video]

Jim has provided the Board and AFT with clear thinking and great advice. On behalf of shareholders, I would like to thank him for his time on the board. On a personal note, I would like to thank Jim for the guidance and support he has given to me during our time together on the board.

[Slide 11: Governance evolving as AFT extends its global reach.

A further evolution in our governance follows the recognition of the growing appetite among investors for information explaining how environmental, social and governance factors influence and drive value in our business.

AFT is built on integrity and a clear purpose of working to improve the health of its customers. It is a mission that has at its heart a commitment to sustainability, the maintenance of best practice corporate governance, the highest ethical standards and a determination to contribute positively to environmental and social outcomes.

However, for these statements to have meaning to our stakeholders, we understand our efforts need to take place within recognised frameworks that allow them to compare performance across companies, sectors and borders.

Recognising this, we last year benchmarked our ESG performance against our peers, the NZX Corporate Governance Code and Guidance notes and Standard & Poor's assessment of material issues for the pharmaceutical sector.

The review, detailed in the annual report, has demonstrated that the company has made further progress on a broad range of fronts. It has also identified opportunities for further progress.

AFT is determined to take a pragmatic approach to these matters. We see them ultimately as an extension of our duties and obligations to our shareholders and our broader stakeholders, including our people, our customers and the community more generally.

As an initial comment I think it is relevant to remind shareholders that Maxigesic is a proven analgesic and that it does not contain opioids.

We all know that opioid abuse is a significant problem in the United States – but it should be noted that it is also a real and growing problem in both New Zealand and Australia. Hartley will talk about the Maxigesic line extensions including Maxigesic IV which is designed to be used in the hospital system and is an alternative to opioid IV's.

But AFT is not just a one product company – although we are proud of our Maxigesic stable of products, AFT now has more than 130 individual products with approximately 300 stock keeping units on the market.

I would encourage you to look through our annual report, which provides more detail on our ESG initiatives. For example, I would also like to point out the progress we have made driving sustainability in our packaging of products – this is a great example of an initiative that not only makes sound business sense but is also good for the environment. We will continue to identify and progress such initiatives.

I am proud of our efforts to make our products available where there is an urgent need. For example, we gave our eyecare products to firefighters in Australia, and over many years we have assisted charities working to improve health outcomes in developing countries.

Again, these are detailed in our annual report and on our new website, which I encourage you to review when you get a chance.

[Slide 12: Outlook – adapting to a post pandemic environment]

Turning to the outlook for the year ahead.

It is still clear to the board that the pandemic and the associated travel restriction and supply chain disruptions will continue to pose a challenge to the company, at least in the immediate future.

We are encouraged by the significant ramp up in vaccinations in important target markets such as the US, Canada, Europe and China.

However, new Covid-19 variants, low vaccination rates in developing markets and vaccination resistance all elevate the risks of continuing disruptions.

The government has indicated it wants an export-led recovery. We are supportive of that and are ready and willing to play our part.

We urge our government to work with industry and with us to enable our people to travel overseas, to conduct essential work,

We fully support a careful risk-based approach. However, we do not believe the current border restrictions are calibrated to take account of essential travel needs of those who have been vaccinated.

As an example, we really need to have one of our senior staff to travel overseas in the near future in order to finalise a multi-centre global clinical trial for our orphan drug Pascomer which is at a critical point.

Importantly, a successful conclusion of this study will help to make a treatment available to sufferers, including children of a disfiguring facial skin disease.

AFT prides itself on its resilient culture and we are determined to work through these challenges, just as we have over the past year and a half. We have done what we can through Zoom and such tools work well, but in many cases, it cannot replace face-to-face interaction.

Meanwhile, in the face of the ongoing risks to our supply chain, we believe it is appropriate to continue to maintain higher levels of inventory than we would normally hold.

Ultimately, we remain confident about our prospects for this financial year. Despite some headwinds in Australia with the ongoing lockdowns, we are overall trading in line with expectations. We expect continued growth in the year ahead and maintain our target of an operating profit of between \$18 million and \$23 million.

That target is of course contingent on no material change to the current trading conditions.

On behalf of shareholders, I want to thank the AFT team for their work and the results they have delivered in what have been testing circumstances. I also want to thank Hartley and the rest of the Board for their efforts and commitment to the company's growth and prosperity.

Finally, I also would like to thank you our shareholders for your ongoing support for AFT.

I will now invite our Managing Director Hartley Atkinson to address the meeting.

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

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