

AFT Pharmaceuticals

R&D update

Portfolio expansion with new in-licensing deal

Pharma and biotech

2 February 2023

Price **NZ\$3.8**

Market cap **NZ\$393m**

NZ\$0.65/US\$

Net cash (NZ\$m) at 30 September 2022 28.9

Shares in issue 104.9m

Free float 26.8%

Code AFT

Primary exchange NZX

Secondary exchange ASX

Share price performance



AFT Pharmaceuticals continues to strengthen its R&D pipeline with the [announced in-licensing agreement](#) with Latitude Pharmaceuticals (a US-based contract research organisation) to develop antibiotic eye drops to treat serious eye infections. The formulation is already approved to treat bacterial infections, including those caused by the antibiotic-resistant MRSA bacteria. The IP relates to an aqueous stable formulation of this treatment. Eye care is a key focus for AFT (contributing over 20% of the group's revenue, per our estimate) and we expect this new asset to complement the existing portfolio. AFT plans to launch around 65 new products in Australasia before 2025 and a robust R&D pipeline will be key to delivering this. The development programme will be covered by AFT's budgeted R&D expenditure of c NZ\$12m per year for FY23 and FY24.

| Year end | Revenue (NZ\$m) | PBT* (NZ\$m) | EPS* (c) | DPS (c) | P/E (x) | Yield (%) |
|----------|-----------------|--------------|----------|---------|---------|-----------|
| 03/21 | 113.1 | 8.2 | 7.1 | 0.00 | 53.4 | N/A |
| 03/22 | 130.3 | 18.9 | 19.2 | 0.00 | 19.7 | N/A |
| 03/23e | 152.2 | 17.6 | 13.4 | 2.57 | 28.2 | 0.7 |
| 03/24e | 189.7 | 31.3 | 21.7 | 4.22 | 17.4 | 1.1 |

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

AFT anticipates the patented aqueous formulation will take three to four years to develop into an antibiotic eye drop, suitable for global regulatory filings across major markets including the US, Europe, China and Japan. The underlying formulation is already approved in a broad range of bacterial infections. It is available off-label for eye infections through compounding pharmacies, although there are no regulatory approved ophthalmic versions yet. We believe this partially de-risk this development programme. AFT (along with Latitude) estimates the target addressable market is US\$1bn globally.

We believe this new development programme complements AFT's existing eye-care portfolio, which we estimate is the second-largest revenue-contributing category for the company (over 20% of sales per our estimates) after pain relief (including the flagship product, Maxigesic). AFT's key eye-care brands include HYLO, NovaTears, Cromo-Fresh and Opti-Soothe. The Latitude agreement is AFT's second R&D collaboration in FY23, following an [in-licensing agreement](#) with Massey Ventures and the Gillies McIndoe Research Institute in September 2022 to develop a topical treatment for strawberry birthmarks (infantile haemangiomas) in children. Both agreements are in line with the company's plans to expand its R&D and product portfolio.

AFT plans to launch around 65 products in Australasia before 2025, in addition to several planned launches in global markets over the next two to five years. A robust R&D pipeline therefore remains key to achieving these objectives. Management has guided for the FY23 R&D expenditure to be NZ\$12m (NZ\$10m in FY22) and the new licensing/development programme will be included in this budget.

Business description

AFT Pharmaceuticals is a specialty pharmaceutical company that operates primarily in Australasia but has product distribution agreements across the globe. Its product portfolio includes prescription and over-the-counter drugs to treat a range of conditions as well as a proprietary nebuliser.

Analysts

Soo Romanoff +44 (0)20 3077 5700

Jyoti Prakash, CFA +44 (0)20 3077 5700

Nidhi Singh +44 (0)20 3077 5700

healthcare@edisongroup.com

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Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia