

AFT Pharmaceuticals

Collaboration for developing birthmark medicine

Collaboration update

Pharma and biotech

2 September 2022

Price **NZ\$3.50**

Market cap **NZ\$365m**

NZ\$0.61/US\$

Net debt (NZ\$m) at 31 March 2022 29.3

Shares in issue 104.9m

Free float 26.8%

Code AFT

Primary exchange NZX

Secondary exchange ASX

Share price performance



Business description

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

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AFT Pharmaceuticals has announced a collaboration and in-licensing agreement with Massey Ventures (the commercialisation arm of Massey University, New Zealand) and Gillies McIndoe Research Institute, New Zealand, to develop a topical treatment for strawberry birthmarks (infantile haemangiomas) in children. The licensing agreement involves the intellectual property (IP) related to initial research on the treatment and is in line with AFT's strategy to grow its R&D pipeline by investing in new growth areas/opportunities. AFT plans to launch ~80 new products in Australia over the next three to four years. The development programme will be accommodated within AFT's estimated R&D expenditure of NZ\$12m in FY23.

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	0.5	N/A
03/22	130.3	18.9	19.2	0.00	0.2	N/A
03/23e	155.9	27.0	20.4	4.04	0.2	1.2
03/24e	194.2	43.5	30.0	5.94	0.1	1.7

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

As part of the licensing agreement, AFT will utilise the IP, developed by Massey Ventures and Gillies McIndoe Research Institute, showcasing the synergistic effect of two heart medicines (beta blockers and angiotensin-converting enzyme (ACE) inhibitors) in the topical treatment of strawberry birthmarks. The company aims to develop a non-invasive and safe topical treatment for paediatric use and will work in collaboration with both research institutes to finalise the formulation. AFT will follow this up by initiating a full development programme, including clinical studies.

A strawberry birthmark (haemangioma) is a clump of tiny blood vessels that forms under the skin and causes a raised red skin growth (either present at birth or develops during infancy and typically appears on the head or neck). It affects up to 10% of children and although benign and self-regressing in most cases, 15% of the cases require treatment during infancy due to threat to body function and occasionally life, according to AFT. While there is an FDA-approved treatment for strawberry birthmarks – propranolol, an orally dosed beta blocker, it requires 12–14 months of treatment and may cause side effects such as low blood sugar. By combining beta blockers and ACE inhibitors in a topical treatment, AFT aims to overcome the limitations of the current standard of care.

The agreement is in line with the company's plans to expand its R&D and product portfolio. AFT aims to launch ~80 products in Australia over the next three to four years, in addition to several launches planned for global markets in two to five years. Management has guided for the FY23 R&D expenditure to be NZ\$12m (NZ\$10m in FY22) and this new licensing/development programme will be accommodated under this budget.

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