# TOGETHER WE ACHIEVE MORE

**Alliance Pharma plc**
Half Year Report 2018

ALLIANCE

# ALLIANCE PHARMA PLC IS AN INTERNATIONAL SPECIALTY PHARMACEUTICAL GROUP

headquartered in the UK with affiliate offices in Europe, the Far East and the US and wide international reach through an extensive network of distributors, generating sales in more than 100 countries.

We currently own or licence the rights to more than 90 pharmaceutical and consumer healthcare products, which are managed on a portfolio basis according to their growth potential. Promotional investment is focussed on a small number of brands with significant international or multi-territory reach. The remainder of the portfolio comprises products which are sold in a limited number of local markets and require little or no promotional investment.

Our tried and tested 'Buy and Build' strategy, allows us to benefit both from organic growth opportunities and from enhancing our growth rate through carefully selected acquisitions.



For more information visit
**alliancepharmaceuticals.com**

# 2018 HIGHLIGHTS

**Revenue**
**£54.5m**
+10%

**Underlying pre-tax profit**
**£12.1m**
+2%

**Underlying basic EPS**
**2.04p**
+4%

**Free cash flow***
**£10.1m**
-9%

**Leverage***
**2.4x**
Adjusted net debt to EBITDA ratio

**Interim dividend**
**0.487p**
+10%



## Overview

- Overall revenue up 10% (12% on a constant currency basis). Like-for-like revenue, excluding acquisitions, up 3% (4% on a constant currency basis) and in line with expectations
  - Continued strong performance from International Star brands, led by Kelo-cote™
- Continued good cash generation, with leverage maintained at 2.4 times including recent acquisitions
- Vamousse™ integration completed and Alliance office established in the US; now assessing prospects for growth in new markets
- Acquisition of Nizoral™ from Johnson & Johnson, which further enhances geographic footprint and scale in our fast-growing Asia Pacific distributor business
- Xonvea™ approved in the UK for nausea and vomiting of pregnancy, where conservative management has failed, paving the way for further approvals within the EU and offering a medium-term growth opportunity; UK launch expected in Q4 2018
- Interim dividend increased 10% to 0.487p

*For a definition of alternative performance measures, please see the accompanying notes.

# CHAIRMAN'S AND CHIEF EXECUTIVE'S STATEMENT

**David Cook**
Non-Executive Chairman

**Peter Butterfield**
Chief Executive

## Overview

Alliance is an international specialty pharmaceutical group with a diverse portfolio of brands.

The primary drivers of organic growth are our International Star brands. These comprise a select number of products which offer significant international growth potential:

- Kelo-cote™ (unique patent-protected treatment for scar reduction)
- MacuShield™ (eye health supplement)
- Vamousse™ (prevention & treatment of headlice)
- Nizoral™ (medicated anti-dandruff shampoo)
- Xonvea™ (licensed medicine for the treatment of nausea and vomiting of pregnancy, where conservative management has failed)

Alongside our International Stars, we have a broad and significant portfolio of brands that are well established and not promoted, or only promoted locally. These latter brands have a recognised position in their markets, without necessarily having wider global potential.

We complement our organic growth with acquisitions and have completed more than 35 deals since the Group was founded.

Geographically, we have a direct presence across Western Europe, the US and the Far East, with additional reach secured through an extensive network of around 100 international distributors.

## Strategy

We have continued to pursue our 'Buy and Build' strategy with two important and significant acquisitions in the last twelve months. In December 2017, the acquisition of Vamousse in the US provided us with a low-risk entry route into the world's largest healthcare market.

More recently, the acquisition of Nizoral, announced in June 2018, has significantly enhanced our presence in Asia Pacific, providing both increased scale and the opportunity to further develop our business in a number of key markets, including China, Japan and Thailand.

"The first half of 2018 has seen continued transformation of the Alliance business, with the creation of an Alliance office in the US, the acquisition of Nizoral bringing increased scale and opportunities for us in the Asia Pacific region and the recent UK approval of Xonvea, offering additional opportunities for growth in the medium term.

The second half of the year has started well. Our good underlying cash generation, coupled with the opportunities from our enlarged portfolio of International Star brands, mean we are well positioned to pursue future growth both organically and through acquisitions in line with our strategic plan."

**David Cook, Non-Executive Chairman**

## Financial Summary

| Unaudited six months ended 30 June | 2018 £m | 2017 £m | Growth |
|---|---|---|---|
| **Revenue** | 54.5 | 49.4 | 10% |
| **Gross profit** | 32.4 | 29.0 | 12% |
| **Underlying EBITDA*** | 13.8 | 13.6 | 1% |
| **Underlying profit before taxation** | 12.1 | 11.9 | 2% |
| **Reported basic earnings per share** | 1.85p | 2.84p | -35% |
| **Underlying basic earnings per share** | 2.04p | 1.97p | 4% |
| **Free cash flow*** | 10.1 | 11.1 | -9% |
| **Leverage*** | 2.4x | 2.5x (31 Dec) | |
| **Net debt*** | 86.3 | 72.3 (31 Dec) | |
| **Interim dividend per share** | 0.487p | 0.443p | 10% |

*For a definition of alternative performance measures, please see the accompanying notes.

## Trading performance

The Group traded well in the first half of 2018 with Group revenues up 10% to £54.5m (H1 2017: £49.4m, restated following the adoption of IFRS 15). Like-for-like revenues, excluding acquisitions, were up 3% (4% on a constant currency basis) on the same period last year to £50.7m and, with improving gross profit margins, gross profit increased by 12% to £32.4m (H1 2017: £29.0m). As expected, the growth in underlying EBITDA and profit before tax was lower as we continue with our planned investment in our International Star brands, including our newly acquired product, Vamousse; underlying EBITDA was up 1% to £13.8m (H1 2017: £13.6m) and profit before tax up 2.0% to £12.1m (H1 2017: £11.9m).

## Recent acquisitions, integration and disposals

We have now completed the integration of Ametop™, a local anaesthetic gel acquired from Smith & Nephew in December 2017, which is performing slightly ahead of our original expectations. We have also completed the integration of Vamousse, the pesticide-free treatment for headlice, acquired in December 2017, and we have now established a new US affiliate office to manage the sales of Vamousse in its largest market.

**SOLID H1 PERFORMANCE WITH REVENUE UP**

**10%**

# CHAIRMAN'S AND CHIEF EXECUTIVE'S STATEMENT CONTINUED

We have made a positive start with the integration planning for Nizoral, the medicated anti-dandruff shampoo acquired from part of Johnson & Johnson (J&J) for the Asia Pacific region in June 2018 for a total consideration of £60.0m. The acquisition included product licences covering 17 APAC territories in which the brand is registered, which are expected to transfer to Alliance throughout 2019 and 2020. Under the terms of the transitional services agreement with J&J, we receive the benefit of the net profit on sales of Nizoral from the date of acquisition.

Since 2007, Alliance has had an economic interest in China through both the Unigreg and Synthasia joint ventures and, in 2016, Alliance established its own affiliate in Shanghai to market a range of nutraceutical products for children in China. As part of the strategic rationalisation of our China business, in April 2018, we completed the disposal of our 60% Joint Venture holding in Unigreg Limited for a cash consideration of £2.9m, generating a profit on disposal of £1.5m. Subsequent to this, in May 2018 we received notification from the import licence partner of Suprememil, the infant milk formula brand in which we have a 20% interest with our joint venture partner Synthasia, that the import licence will not renewed. Following recent discussions with the import licence partner and Synthasia management, the Board decided to fully impair the value of our investment in this business of £0.3m, and to fully provide for the associated receivables balance of £2.2m, resulting in a non-cash, non-underlying impairment charge and receivables provision totalling £2.5m.

China remains a key territory for the Group and our Shanghai affiliate will continue to market our local nutraceutical products. This affiliate also maintains close links to the Shanghai-based distributor of Kelo-cote, China being the product's largest market, and will manage the Nizoral relationship in China following the transition from J&J.

## NEW ACQUISITION

**Nizoral, a medicated anti-dandruff shampoo, was acquired from Johnson & Johnson in June 2018, further enhancing geographic footprint and scale in our fast-growing Asia Pacific distributor business.**

# OPERATIONAL REVIEW

## International Star brands

### Kelo-cote

Kelo-cote, our scar treatment product, delivered an outstanding performance in the first half of 2018, with revenues up 77% to £10.9m (H1 2017: £6.2m), due to continued growth across the Asia Pacific region and also mainland Europe, in particular France.

As an International Star brand, Kelo-cote benefits from the provision of central strategic oversight, direction and campaign generation, ensuring marketing activities are aligned across all territories, whilst allowing for local customisation where appropriate.

We plan to support the growth of this key brand through further range enhancement and maintaining similar levels of marketing support.

### MacuShield

MacuShield, our eye health supplement, also performed well in this period and generated sales up 22% to £3.7m (H1 2017: £3.0m, restated following the adoption of IFRS 15). Growth came primarily from the UK, where the product was awarded 'Best Eye Health Product 2018' by Boots.

Further launches are planned in both European and international territories in the second half of 2018 and first half of 2019, which are expected to drive further sales growth in the medium term.

### Vamousse

Vamousse, for the prevention and treatment of head lice, performed in line with expectations and achieved sales of £2.7m in the period, up 3% (up 11% on a constant currency basis) on the same period last year under its previous ownership. We are well-placed to grow sales in the second half of the year, which includes the important 'back-to-school' period in the US and UK.

We continue to evaluate opportunities to introduce Vamousse into new markets during 2019.

### Nizoral

Our International Star brand portfolio has been enhanced by the recent acquisition of Nizoral, a medicated anti-dandruff shampoo acquired from J&J in June 2018. This acquisition significantly enhances our successful and fast-growing distributor business in the Asia Pacific region. J&J is continuing to trade the brand on our behalf under a transitional services agreement, which is expected to continue until mid-2020, to allow time for the marketing authorisations, distribution and supply arrangements to transfer. Very early indications show that the product is performing in line with expectations.

**+77%**
**Kelo-cote revenue growth**

**+22%**
**MacuShield revenue growth**

# OPERATIONAL REVIEW CONTINUED

## International Star brands continued

### Xonvea

As announced in July 2018, the Medicines and Healthcare products Regulatory Agency (MHRA) approved the UK Marketing Authorisation Application for Xonvea (formerly Diclectin), a prescription product for the treatment of nausea and vomiting of pregnancy, where conservative management has failed, which was in-licensed from Duchesnay Inc. for the UK in 2015 and for a further nine European territories in 2016. This approval has the potential to be earnings enhancing in the longer term; nausea and vomiting of pregnancy is a widespread problem and there is a significant patient need for a treatment such as Xonvea.

Our pre-launch preparations for the UK are progressing well, with the market access team having engaged with NHS payers and budget holders. We have started to execute against our marketing plan, in preparation for launch in Q4 2018.

## Local brands

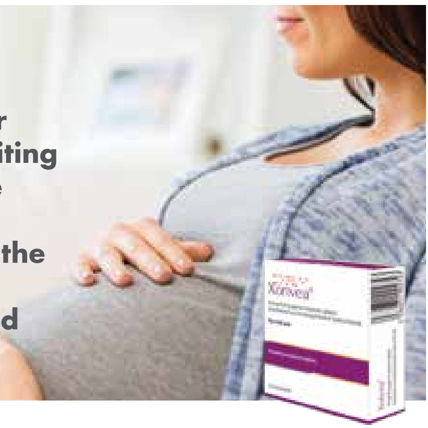
The Group's product portfolio continues to evolve but remains focused on a combination of established local brands and the growth brands that we name International Stars. Following the acquisition of our fifth International Star brand, Nizoral, which recorded sales of £18.5 million in 2017, the proportion of sales from International Stars is set to grow significantly. As a result, we are now grouping together, under the term Local brands, the unpromoted and locally promoted products previously referred to as Bedrock and Local Heroes respectively.

Our Local brands comprise a wide portfolio of products that generate significant cashflow for the business and represent a key component of our business model.

Across the portfolio, net sales for the first half were mixed, in aggregate, down 7.5% at £37.2m (H1 2017: £40.2m). In some instances, particularly for products sold through our international distributor network, lower H1 sales were due to timing differences in order placement, some of which are expected to reverse in the second half of the year. We also experienced manufacturing delays, particularly for some of our UK prescription medicine products, some of which are expected to be resolved during the second half of 2018.

## NEW LAUNCH

**Xonvea, a prescription product for the treatment of nausea and vomiting of pregnancy, where conservative management has failed, has now been approved in the UK, paving the way for further approvals in the EU. Preparations are well advanced for a UK launch in Q4 2018.**



Most of our Local brands occupy well-established niches in their respective segments and provide stable cashflow for the business with little promotional effort. Occasionally, competition may emerge in a certain area and we have experienced this in our anti-malarial portfolio which, after due consideration, we have concluded that it is appropriate to impair this year.

Many of the locally promoted consumer brands performed well in this period, particularly Aloclair™ (a treatment for mouth ulcers) where like-for-like sales increased 15% to £3.5m (H1 2017: £3.1m) and our teething powder, Ashton & Parsons™, which delivered a like-for-like sales growth of 22% and achieved first half sales of £1.1m (H1 2017: £0.9m).

## Performance by region

### UK and Republic of Ireland

Sales in the UK and Republic of Ireland, our largest market, were down 3.6% on the comparable period last year at £25.7m (H1 2017: £26.7m).

As noted above, we experienced some manufacturing and ordering delays, notably on a manufacturing transfer of Menadiol™ (used in the treatment of Vitamin K deficiency), which should normalise during the second half of 2018 to 2017 levels. UK sales were also impacted by the fall in sales of our anti-malarial products and, to a lesser extent, a mandated increase in the UK rebate (the Pharmaceutical Price Regulation Scheme) from 4.75% to 7.8%.

**Mainland Europe sales**

**£12.2m** +20%

These challenges were partially offset by strong performances from our UK consumer products, with our key consumer brands, MacuShield, Ashton & Parsons, Aloclair, Anbesol™ and Vamousse all delivering good sales growth and we expect to see this trend continue during the second half of 2018.

Hydromol™ sales also returned to growth, increasing by 4% to £3.5m (H1 2017: £3.3m), which was a pleasing performance in a slightly declining market.

### Mainland Europe

Sales made in Mainland Europe for the period increased 20% to £12.2m (H1 2017: £10.2m), the main driver being the growth in Kelo-cote sales, particularly in France and Portugal, where year-on-year sales together increased by more than £2.5m. These sales more than offset the loss of a Haemopressin™ tender in France, caused by increased pricing pressure in the market, and some distributor order phasing on Aloclair, which is expected to correct in the second half of 2018.

Sales across our other European affiliates were broadly unchanged.

We continue to evaluate further acquisition and in-licensing opportunities to leverage our footprint across Mainland Europe.

# OPERATIONAL REVIEW CONTINUED

**International sales**

**£16.5m** +32%

## Performance by region continued

### International

Our international business continued to perform strongly and represents an increasing part of our revenue generation, with sales increasing 32% to £16.5m in the first half of 2018 (H1 2017: £12.5m).

We were particularly pleased with the performance of our China business, whose sales grew by 54% (67% in constant currency), due to strong performances from Kelo-cote and our nutraceutical products. Kelo-cote sales also boosted performance in Latin America, where sales of the product increased by £0.7m to £1.7m (H1 2017: £1.0m).

In the US, sales of Vamousse held steady at £2.1m, up 1% on a constant currency basis when compared to the same period last year under its previous ownership.

## Operations

### Falsified Medicines Directive (FMD) and Medical Device Regulation (MDR)

We continue to work with our contract manufacturers to ensure our medicinal product packs and distribution networks comply with the requirements of the FMD by the deadline of February 2019; the goal of the FMD is to prevent counterfeit medicines from reaching patients in Europe.

We are also working to ensure our technical documentation and processes meet the new requirements of the MDR which will apply from May 2020. The new regulation places stricter requirements on clinical information and requires enhanced traceability and transparency.

### Brexit

We continue to monitor closely the evolving situation with regards to Brexit, balancing the potential trading risks with the cost and timing of risk mitigation measures as negotiations between the UK Government and European Union proceed, and the terms of any transitional arrangements are clarified.

Our strategy to adapt to potential changes in the regulatory environment to maintain compliance across key business areas and to mitigate trading risks includes: an inventory build focused on maintaining sufficient supply of key medicines; establishing an affiliate in the Republic of Ireland to host marketing authorisations for our EU medicines; and duplicating key statutory roles (Qualified Person, Responsible Person and Qualified Person Pharmacovigilance) in the UK and EU.

Compliance and operational functions are aligned to maintain the supply of products post Brexit, whilst minimising the impact on both our business model and operational cost base. We continue to monitor Brexit developments closely and will be able to respond to these in a timely and considered manner.

We expect to incur one-off costs in preparing for FMD, MDR and Brexit of £0.6m in 2018 and a further £0.8m in 2019. From 2019, we expect a step up in our cost base by approximately £0.7m p.a. in order to operate under these new compliance regimes. We plan to increase our stockholdings ahead of FMD and Brexit by approximately £3.5m by the end of 2018, with a consequential impact on cash flow. We expect this increased holding to substantially unwind during the financial year 2019.

## Microsoft Dynamics AX implementation

Our new enterprise resource planning system, Microsoft Dynamics AX, is expected to be operational in Q1 2019. Bringing several legacy systems onto a single platform, which can handle all our financial and supply chain planning and fulfilment activities, will help streamline our processes and provide a scalable platform as we pursue further growth.

## People

As announced in March 2018, Peter Butterfield's appointment as Chief Executive Officer became effective on 1 May 2018, with former CEO, John Dawson, becoming a Non-executive Director. Peter has almost 20 years of experience in healthcare, the past eight of which he has spent at Alliance and we look forward with confidence to the Group continuing to prosper under Peter's leadership. In other Board-level changes, on 1 March 2018, David Cook, who had been a Non-executive Director at Alliance for almost four years, succeeded Andrew Smith as Chairman and, on 30 May 2018, Thomas Casdagli stepped down as a Non-executive Director.

Alliance employs approximately 200 people in 10 locations around the world and we continue to build expertise as the business grows and diversifies. We have now established our core team in the US under our new US Country Manager and are currently planning our resourcing requirements in Asia Pacific following the Nizoral acquisition.

## Current trading and outlook

The second half of the year has started well and, based on trading performance in the year to date, the Board expects revenues and underlying profit before tax for the current financial year to be in line with its expectations.

Strategically, the priorities for the Group continue to be the delivery of organic growth, planning and starting to execute the integration of Nizoral and preparing for the UK launch of Xonvea in Q4 2018.

We continue to evaluate bolt-on acquisitions with the objective of further driving our growth. Our ability to conclude such acquisitions is facilitated by our good cash generation and operational infrastructure.

# FINANCIAL REVIEW

## Summary underlying income statement

| Six months ended 30 June | 2018 £m | 2017 £m | Growth |
|---|---|---|---|
| **Revenue*** | 54.5 | 49.4 | 10% |
| **Gross profit** | 32.4 | 29.0 | 12% |
| Operating expenses | (18.7) | (15.4) | (21%) |
| **Underlying EBITDA**** | 13.8 | 13.6 | 1% |
| Depreciation & amortisation | (0.6) | (0.4) | (38%) |
| **Underlying EBIT** | 13.2 | 13.3 | – |
| Finance costs | (1.1) | (1.4) | (20%) |
| **Underlying profit before taxation** | 12.1 | 11.9 | 2% |
| **Underlying basic earnings per share** | 2.04p | 1.97p | 3% |
| **Interim dividend per share** | 0.487p | 0.443p | 10% |

**Note:** Underlying profitability metrics are presented as we believe this provides investors with useful information about the performance of the business. For 2018, underlying results exclude £0.3m of costs in relation to the acquisition of Nizoral, £1.5m of profit on the disposal of the Group's interest in Unigreg Limited and a £2.5m impairment charge in relation to the Group's interest in Synthasia International Co. Ltd; for 2017, underlying results exclude £5.0m of compensation received from Sinclair Pharma plc in connection with the material reduction of business in Kelo-stretch™. Further detail can be found in note 6.

* The adoption of IFRS 15 'Revenue from Contracts with Customers' has resulted in the reclassification of certain rebates as a deduction from Revenue; previously these rebates were included within Cost of Sales. To ensure comparability, the H1 2017 comparatives have been restated on the same basis, resulting in a reduction in sales of £0.9m. There is no impact on profit in either period. Further detail can be found in note 3.1.

**For a definition of alternative performance measures, please see the accompanying notes.

The Group delivered a good financial performance in H1 with revenue increasing 10% to £54.5m (2017: £49.4m*), largely driven by strong performance from our International Star brands, in particular Kelo-cote and resulting in a 2% increase in underlying profit before taxation to £12.1m (2017: £11.9m).

The Group's revenue was adversely impacted by approximately £0.9m due to the strengthening of Sterling, primarily against the US Dollar.

However, the effect on operating profits was much smaller due to the natural hedge that exists between the US Dollar and Sterling, reducing cost of goods and operating costs denominated in US Dollars.

Gross profit increased at a higher rate than revenue, up 12% to £32.4m (2017: £29.0m), resulting in a gross margin 0.8% higher for the period of 59.6% (2017: 58.8%*), the increase in margin percentage resulting from the strong performance of our International Star brands, particularly Kelo-cote.

The Group continued its planned increase in sales and marketing expenditure during H1 2018, with continuing focus to support the sales growth of our International Star brands. This resulted in an increase in operating costs (excl. depreciation and amortisation but including the IFRS2 share options charge of £0.6m) of £3.3m to £18.7m. Excluding the IFRS share option charge, this represents 33.2% of sales (2017: 30.7%*).

Underlying earnings before interest, taxes, depreciation and amortisation (EBITDA) was broadly in line with the same period last year at £13.8m (2017: £13.6m).

## Finance costs

Finance costs reduced by £0.3m on the prior period to £1.1m (2017: £1.4m), due to a reduction in overall gross debt in the period prior to the Nizoral acquisition in June 2018 and currency movements.

The average interest charge on gross debt during the period was 2.72%.

## Reconciliation of underlying profit before tax to reported profit before tax

| Six months ended 30 June | 2018 £m | 2017 £m |
|---|---|---|
| **Underlying profit before taxation** | 12.1 | 11.9 |
| **Non-underlying items:** | | |
| Profit on disposal of Unigreg JV | 1.5 | |
| Synthasia JV asset impairment and receivables provision | (2.5) | |
| Nizoral acquisition costs | (0.3) | |
| Exceptional compensation income (from Sinclair) | | 5.0 |
| **Total** | (1.3) | 5.0 |
| **Reported profit before taxation** | 10.9 | 16.9 |

## Unigreg JV disposal

On 18 April 2018 the Group sold its 60% interest in its non-core investment in Unigreg Limited to its joint venture partner, Pacific Glory Development Limited, for a consideration of £2.9m. We received an initial payment of £2.4m at completion and a deferred payment of £0.5m is due on or before 16 April 2019. In addition, all outstanding shareholder loans made by the Group to Unigreg, totalling £1.5m, were repaid in full prior to completion.

## Synthasia JV asset impairment and receivables provision

In May 2018 we received notification from the import licence partner of Supremenil, the infant milk formula brand in which we have a 20% interest with our joint venture partner Synthasia, that the import licence will not be renewed. The Board has therefore concluded to fully impair the joint venture investment of £0.3m and to fully provide for the associated receivables balances of £2.2m. This generates a non-cash, non-underlying impairment charge and receivables provision of £2.5m.

# FINANCIAL REVIEW CONTINUED

## Anti-malarial products impairment

Sales of our anti-malarial products fell £0.5m in H1 2018 to £0.4m versus the same period in the prior year due to recent competition in the UK market. In mid-August 2018, Alliance was notified by the manufacturer of these products of its intention to cease supply due to lower volumes. After due consideration, the Board has concluded that, due to the decline in demand, it is not economic to transfer the product to an alternative manufacturer and therefore it is appropriate to write down the value of the £4.3m intangible asset associated with these products in full. This non-cash charge is disclosed in the half year announcement as a post balance sheet event (see note 15) and will be recognised as an impairment charge in the full year results.

Alliance acquired the anti-malarial products in 2012, since which time they have generated a cumulative gross profit of £6.0m to 30 June 2018. This acquisition also served as our strategic entry point into Europe through the establishment of our French affiliate.

## Taxation

The total tax charge for the period was £2.1m (2017: £3.4m). Excluding non-underlying items, which generated a tax credit of £0.4m in 2018 (2017: £0.9m), the underlying tax charge was £2.4m (2017: £2.6m), representing an effective tax rate (ETR) of 19.9% (2017: 21.8%), reflecting lower tax rates in the UK and US.

## Earnings per share

Underlying basic earnings per share increased by 3.6% to 2.04p (2017: 1.97p), the increase reflecting the modest increase in the Group's underlying profit after tax. This is the measure used by the Board in assessing earnings performance.

Reported basic earnings per share decreased 35% to 1.85p (2017: 2.84p) due primarily to the impact of the Sinclair settlement increasing earnings in 2017, and the net impact of the non-underlying items in 2018 outlined above.

## Dividend

The Board remains committed to a sustainable and progressive dividend policy and is implementing an interim dividend payment of 0.487p per share, which represents an increase of 10% on 2017.

The interim dividend will be paid on 10 January 2019 to shareholders on the register on 21 December 2018.

The level of dividend cover in the first half of 2018 remained ample at over three times and the interim dividend payment for 2018 will be £2.5m (2017: £2.1m).

## Cash flow and net debt

Free cash flow (defined as cash generated from operating activities (excluding non-underlying items) less interest, tax and capital expenditure) for the period remained good at £10.1m and was £1.0m lower than for the corresponding period (2017: £11.1m) due to the timing of tax payments (2018: £2.4m, 2017: £1.4m).

As a result of the Group's underlying cash generation, together with the £3.9m receipt from the Unigreg disposal and the final £1.0m cash settlement receipt from Sinclair, the Group's net debt (excluding acquisition funding) would have reduced to £58.3m as at 30 June 2018 (31 December 2017: £72.3m). Including the £28.0m of new borrowing to part-fund the Nizoral acquisition increased the Group's net debt to £86.3m at the half year.

Notwithstanding this additional borrowing, leverage (defined as last 12 months adjusted net debt/EBITDA) as at 30 June 2018 of 2.41 times was lower than the leverage at 31 December 2017 of 2.46 times with adequate headroom against our covenant limit of 3.0 times. Excluding the Nizoral acquisition, our leverage at 30 June 2018 would have been approximately 2.16 times.

Based on current business performance, and excluding any bolt-on acquisitions, leverage is expected to remain broadly flat at around 2.4 to 2.5 times during the second half of 2018 as we invest in the pre-launch activities for Xonvea, prepare for FMD, MDR and Brexit, and increases in stockholding.

## Balance sheet

Intangible assets increased by £60.9m to £339.5m (31 December 2017: £278.6m), mainly due to the Nizoral acquisition (£60.0m).

## Working capital

The planned increase in inventory following the Ametop and Vamousse acquisitions resulted in an increase in total inventory in the period of £2.1m, with the movement in trade and other receivables being largely offset by the movement in trade payables.

## Treasury and capital management

The Group's operations are financed by retained earnings and bank borrowings, with additional equity being raised on a periodic basis to finance larger acquisitions.

In June 2018, the Group extended its Revolving Credit Facility (RCF) by £35.0m and raised new equity of £34.0m (gross) to fund the £60.0m acquisition of Nizoral.

The Group now has total bank facilities of £135.0m, comprising a Term Loan of £65.0m and a RCF of £70.0m, of which £43.4m (31 December 2017: £50.3m) was outstanding on the Term Loan at 30 June 2018 with £58.5m (31 December 2017: £34.0m) utilised from the RCF. Borrowings are denominated in Sterling, Euro and US Dollars.

The Group manages its exposure to currency fluctuations on translation by managing currencies at Group level using bank accounts denominated in its primary trading currencies: Sterling, Euro and US dollars.

# UNAUDITED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2018

| | | Unaudited Six months ended 30 June 2018 | | | Unaudited Six months ended 30 June 2017 | | |
|---|---|---|---|---|---|---|---|
| | Note | Underlying £000s | Non-Underlying £000s (note 6) | Total £000s | Underlying £000s *restated | Non-Underlying £000s (note 6) | Total £000s *restated |
| **Revenue** | 3,4 | 54,455 | – | 54,455 | 49,374 | – | 49,374 |
| **Cost of sales** | | (22,021) | – | (22,021) | (20,342) | – | (20,342) |
| **Gross profit** | | 32,434 | – | 32,434 | 29,032 | – | 29,032 |
| **Operating expenses** | | | | | | | |
| Administration and marketing expenses | | (18,638) | (307) | (18,945) | (15,154) | – | (15,154) |
| Share-based employee remuneration | | (571) | – | (571) | (704) | – | (704) |
| Share of Joint Venture profits | | 13 | – | 13 | 92 | – | 92 |
| | | (19,196) | (307) | (19,503) | (15,766) | – | (15,766) |
| **Operating profit excluding exceptional items** | | 13,238 | (307) | 12,931 | 13,266 | – | 13,266 |
| Profit on disposal of Unigreg Joint Venture | | – | 1,508 | 1,508 | – | – | – |
| Impairment and write-down of Synthasia Joint Venture assets | | – | (2,460) | (2,460) | – | – | – |
| Exceptional compensation income | | – | – | – | – | 5,000 | 5,000 |
| **Operating profit** | | 13,238 | (1,259) | 11,979 | 13,266 | 5,000 | 18,266 |
| **Finance costs** | | | | | | | |
| Interest payable and similar charges | 5 | (1,464) | – | (1,464) | (1,516) | – | (1,516) |
| Finance income | 5 | 373 | – | 373 | 145 | – | 145 |
| | | (1,091) | – | (1,091) | (1,371) | – | (1,371) |
| **Profit before taxation** | | 12,147 | (1,259) | 10,888 | 11,895 | 5,000 | 16,895 |
| Taxation | 7 | (2,417) | 358 | (2,059) | (2,595) | (850) | (3,445) |
| **Profit for the period attributable to equity shareholders** | | 9,730 | (901) | 8,829 | 9,300 | 4,150 | 13,450 |
| **Earnings per share** | | | | | | | |
| Basic (pence) | 12 | 2.04 | | 1.85 | 1.97 | | 2.84 |
| Diluted (pence) | 12 | 1.98 | | 1.80 | 1.95 | | 2.82 |

* The Group has initially applied IFRS 15 Revenue from Contracts with Customers at 1 January 2017 (note 3).

# UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2018

| | Unaudited Six months ended 30 June 2018 £000s | Unaudited Six months ended 30 June 2017 £000s |
|---|---|---|
| **Profit for the period** | 8,829 | 13,450 |
| **Other comprehensive income** | | |
| **Items that may be reclassified to profit or loss:** | | |
| Interest rate swaps – cash flow hedge | 92 | 158 |
| Deferred tax on interest rate swaps | (16) | (32) |
| Foreign exchange translation differences | 323 | (939) |
| **Total comprehensive income for the period** | 9,228 | 12,637 |

# UNAUDITED CONSOLIDATED BALANCE SHEET

As at 30 June 2018

| | Note | Unaudited 30 June 2018 £000s | Audited 31 December 2017 £000s |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Goodwill and intangible assets | 8 | 339,476 | 278,623 |
| Property, plant and equipment | | 3,907 | 3,377 |
| Joint Venture investment | | – | 1,483 |
| Joint Venture receivable | | – | 1,462 |
| Deferred tax asset | | 3,043 | 2,174 |
| Other non-current assets | | 235 | 229 |
| | | 346,661 | 287,348 |
| **Current assets** | | | |
| Inventories | | 16,346 | 14,248 |
| Trade and other receivables | 9 | 22,767 | 23,695 |
| Cash and cash equivalents | | 14,479 | 11,184 |
| | | 53,592 | 49,127 |
| **Total assets** | | 400,253 | 336,475 |
| **Equity** | | | |
| Ordinary share capital | | 5,150 | 4,750 |
| Share premium account | | 143,511 | 110,252 |
| Share option reserve | | 6,573 | 5,073 |
| Reverse takeover reserve | | (329) | (329) |
| Other reserve | | (41) | (117) |
| Translation reserve | | 713 | 390 |
| Retained earnings | | 85,847 | 83,358 |
| **Total equity** | | 241,424 | 203,377 |

| | Note | Unaudited 30 June 2018 £000s | Audited 31 December 2017 £000s |
|---|---|---|---|
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Loans and borrowings | 14 | 33,700 | 41,780 |
| Other liabilities | 11 | 3,624 | 3,525 |
| Deferred tax liability | | 27,608 | 26,920 |
| Derivative financial instruments | | 49 | 63 |
| | | 64,981 | 72,288 |
| **Current liabilities** | | | |
| Loans and borrowing | 14 | 67,047 | 41,719 |
| Corporation tax | | 1,549 | 2,436 |
| Trade and other payables | 10 | 25,252 | 16,576 |
| Derivative financial instruments | | – | 79 |
| | | 93,848 | 60,810 |
| **Total liabilities** | | 158,829 | 133,098 |
| **Total equity and liabilities** | | 400,253 | 336,475 |

# UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

| | Note | Unaudited Six months ended 30 June 2018 £000s | Unaudited Six months ended 30 June 2017 £000s |
|---|---|---|---|
| **Operating activities** | | | |
| Profit for the period before tax | | 10,888 | 16,895 |
| Interest payable and similar charges | 5 | 1,464 | 1,516 |
| Finance income | 5 | (373) | (145) |
| Exceptional compensation income | 6 | – | (5,000) |
| Profit on disposal of Unigreg Joint Venture | 6 | (1,508) | – |
| Non-underlying acquisition costs | 6 | 307 | – |
| Impairment and write-down of Synthasia Joint Venture assets | 6 | 2,460 | – |
| Depreciation of property, plant and equipment | | 410 | 226 |
| Amortisation of intangible assets | 8 | 118 | 157 |
| Share-based employee remuneration | | 571 | 704 |
| Change in inventories | | (2,098) | 175 |
| Share of post-tax Joint Venture profits | | (13) | (92) |
| Change in trade and other receivables | | (1,810) | 3,392 |
| Change in trade and other payables | | 4,440 | (2,853) |
| Cash generated from operations | | 14,856 | 14,975 |
| Tax paid | | (2,363) | (1,370) |
| **Cash flows from operating activities** | | 12,493 | 13,605 |
| **Investing activities** | | | |
| Interest received | 5 | 39 | 54 |
| Deferred contingent consideration on acquisitions | | – | (1,714) |
| Development costs capitalised | 8 | (25) | (265) |
| Purchase of property, plant and equipment | | (940) | (984) |
| Exceptional compensation income | 6 | 1,000 | 4,000 |
| Net proceeds from disposal of Unigreg Joint Venture | 6 | 2,196 | – |
| Loan to Joint Venture | 6 | 1,426 | (25) |
| Consideration on acquisition | 8 | (60,000) | – |
| **Net cash (used in)/received from investing activities** | | (56,304) | 1,066 |

| | Note | Unaudited Six months ended 30 June 2018 £000s | Unaudited Six months ended 30 June 2017 £000s |
|---|---|---|---|
| **Financing activities** | | | |
| Interest paid and similar charges | | (1,454) | (1,557) |
| Loan issue costs | | (197) | – |
| Net proceeds from issue of shares | | 32,845 | – |
| Proceeds from exercise of share options | | 815 | 506 |
| Dividend paid | 13 | (2,104) | (1,904) |
| Receipt from borrowings | 14 | 28,000 | – |
| Repayment of borrowings | 14 | (10,813) | (10,136) |
| **Net cash received from/(used in) financing activities** | | 47,092 | (13,091) |
| Net movement in cash and cash equivalents | | 3,281 | 1,580 |
| **Cash and cash equivalents at beginning of period** | | 11,184 | 7,221 |
| Effects of exchange rate movements | | 14 | 205 |
| **Cash and cash equivalents at end of period** | | 14,479 | 9,006 |

# UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

| | Ordinary Share capital £000s | Share Premium account £000s | Share Option reserve £000s | Reverse takeover reserve £000s | Other reserve £000s | Translation Reserve £000s | Retained earnings £000s | Total equity £000s |
|---|---|---|---|---|---|---|---|---|
| **Balance 1 January 2017 (audited)** | 4,726 | 109,594 | 3,306 | (329) | (319) | 2,108 | 60,177 | 179,263 |
| Issue of shares | 17 | 489 | – | – | – | – | – | 506 |
| Dividend payable/paid | – | – | – | – | – | – | (5,725) | (5,725) |
| Share options charge | – | – | 704 | – | – | – | – | 704 |
| **Transactions with owners** | 17 | 489 | 704 | – | – | – | (5,725) | (4,515) |
| Profit for the period | – | – | – | – | – | – | 13,450 | 13,450 |
| **Other comprehensive income** | | | | | | | | |
| Interest rate swaps – cash flow hedge | – | – | – | – | 158 | – | – | 158 |
| Deferred tax on interest rate swaps | – | – | – | – | (32) | – | – | (32) |
| Foreign exchange translation differences | – | – | – | – | – | (939) | – | (939) |
| **Total comprehensive income for the period** | – | – | – | – | 126 | (939) | 13,450 | 12,637 |
| **Balance 30 June 2017 (unaudited)** | 4,743 | 110,083 | 4,010 | (329) | (193) | 1,169 | 67,902 | 187,385 |

| | Ordinary Share capital £000s | Share Premium account £000s | Share Option reserve £000s | Reverse takeover reserve £000s | Other reserve £000s | Translation Reserve £000s | Retained earnings £000s | Total equity £000s |
|---|---|---|---|---|---|---|---|---|
| **Balance 1 January 2018 (audited)** | 4,750 | 110,252 | 5,073 | (329) | (117) | 390 | 83,358 | 203,377 |
| Issue of shares | 400 | 33,259 | – | – | – | – | – | 33,659 |
| Dividend payable/ paid | – | – | – | – | – | – | (6,340) | (6,340) |
| Share options charge (including deferred tax) | – | – | 1,500 | – | – | – | – | 1,500 |
| **Transactions with owners** | 400 | 33,259 | 1,500 | – | – | – | (6,340) | 28,819 |
| Profit for the period | – | – | – | – | – | – | 8,829 | 8,829 |
| **Other comprehensive income** | | | | | | | | |
| Interest rate swaps – cash flow hedge | – | – | – | – | 92 | – | – | 92 |
| Deferred tax on interest rate swaps | – | – | – | – | (16) | – | – | (16) |
| Foreign exchange translation differences | – | – | – | – | – | 323 | – | 323 |
| **Total comprehensive income for the period** | – | – | – | – | 76 | 323 | 8,829 | 9,228 |
| **Balance 30 June 2018 (unaudited)** | 5,150 | 143,511 | 6,573 | (329) | (41) | 713 | 85,847 | 241,424 |

# NOTES TO THE HALF YEAR REPORT

For the six months ended 30 June 2018

## 1. Nature of operations

Alliance Pharma plc ("the Company") and its subsidiaries (together "the Group") acquire, market and distribute pharmaceutical and other medical products. The Company is a public limited company, limited by shares, incorporated and domiciled in England. The address of its registered office is Avonbridge House, Bath Road, Chippenham, Wiltshire, SN15 2BB.

The Company is listed on the London Stock Exchange, Alternative Investment Market (AIM).

## 2. General information

The information in these financial statements does not constitute statutory accounts as defined in section 434 of the Companies Act 2006 and is unaudited. These financial statements have been prepared in accordance with the AIM rules, and IAS 34 has not been adopted. A copy of the Group's statutory accounts for the year ended 31 December 2017, prepared under International Financial Reporting Standards as adopted by the European Union, has been delivered to the Registrar of Companies. The auditors' report on those accounts was unqualified and did not contain statements under section 498(2) or section 498(3) of the Companies Act 2006.

This interim financial report for the six-month period ended 30 June 2018 (including restated comparatives for the six months ended 30 June 2017) was approved by the Board of Directors on 17 September 2018.

The current rate of cash generation by the Group comfortably exceeds the capital and debt servicing needs of the business. The Board remains confident that all the bank covenants will continue to be met and the Group will be able to meet its working capital needs for at least the next 12 months.

After making enquiries, the Directors have formed a judgement that there is reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

## 3. Accounting policies

This is the first set of the Group's financial statements where IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have been applied. The impact of these changes in accounting policies are described below.

Remaining accounting policies applied in these interim financial statements are as published by the Group in the 31 December 2017 Annual Report. The Annual Report is available on the Group's website alliancepharmaceuticals.com.

### 3.1 Adoption of IFRS 15 Revenue from Contracts with Customers

IFRS 15 Revenue from Contracts with Customers was adopted by the Group on 1 January 2018. IFRS 15 is a converged standard from the IASB and FASB on revenue recognition. The standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally. It introduces a five-step model to determine the nature, timing and amount of revenue recognised.

The Group has opted to apply the full retrospective approach under IFRS 15 meaning the prior period has been restated to show the impact of adoption from 1 January 2017. During the comprehensive analysis undertaken as part of the Group's transitional review certain rebates were identified within Cost of sales. These have been reclassified against Revenue on transition to IFRS 15. The adjustments are shown in the column "Effect of IFRS 15 adjustments" and are presentational within the Income statement only. They have no effect on reported profit or equity for the Group.

As no impact on the Balance sheet or equity has been identified only an Income statement prior period comparison is presented.

# NOTES TO THE HALF YEAR REPORT CONTINUED

For the six months ended 30 June 2018

## 3. Accounting policies continued

### 3.1 Adoption of IFRS 15 Revenue from Contracts with Customers continued

| | 30 June 2017 as reported £000s | Effect of IFRS 15 adjustments £000s | 30 June 2017 restated £000s |
|---|---|---|---|
| **Revenue** | 50,310 | (936) | 49,374 |
| **Cost of sales** | (21,331) | 989 | (20,342) |
| **Gross profit** | 28,979 | 53 | 29,032 |
| **Operating expenses** | | | |
| Administration and marketing expenses | (15,101) | (53) | (15,154) |
| Share-based employee remuneration | (704) | – | (704) |
| Share of Joint Venture profits | 92 | – | 92 |
| | (15,713) | (53) | (15,766) |
| **Operating profit excluding exceptional item** | 13,266 | – | 13,266 |
| Exceptional compensation income | 5,000 | – | 5,000 |
| **Operating profit** | 18,266 | – | 18,266 |
| **Finance costs** | | | |
| Interest payable and similar charges | (1,516) | – | (1,516) |
| Finance income | 145 | – | 145 |
| | (1,371) | – | (1,371) |
| **Profit before taxation** | 16,895 | – | 16,895 |
| Taxation | (3,445) | – | (3,445) |
| **Profit for the period attributable to equity shareholders** | 13,450 | – | 13,450 |

## 3.2 Adoption of IFRS 9 Financial Instruments

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

### Classification and measurement

The adoption of IFRS 9 Financial Instruments from 1 January 2018 has resulted in re-designation of the amounts recognised as "Loans and receivables" to "Amortised cost" as designated in the full Annual Report notes. There is no impact on the Balance sheet, brought forward equity or total comprehensive income recognised in prior years. This change will be detailed in the Group's 2018 Annual Report notes.

Consistent with IAS 39, under IFRS 9 the effective portion of changes in the fair value of derivative financial instruments that are designated as cash flow hedges is recognised in other comprehensive income, while the gain or loss relating to the ineffective portion is recognised immediately in the Income statement.

The Group's derivatives continue to qualify as cash flow hedges and no changes to classification or measurement are required under IFRS 9.

### Impairment of financial assets

The Group's trade receivables are subject to the IFRS 9 expected credit loss model. The Group has applied the simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance based on historic default rates. No additional IFRS 9 expected credit loss provision has been recognised from this change in accounting policy.

## 3.3 New standard not yet applied – IFRS 16 Leases

IFRS 16 Leases replaces IAS 17 Leases. The new standard requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use' asset for virtually all lease contracts, excluding certain short-term leases and leases of low-value assets. The new standard is required to be applied for reporting periods beginning on or after 1 January 2019.

The Group is currently assessing the impact of the new standard on the financial position and consolidated results of the Group and continually reviews amendments to the standards made under the IASB's annual improvements project.

# NOTES TO THE HALF YEAR REPORT CONTINUED

For the six months ended 30 June 2018

## 4. Revenue

### Segmental information By Brand

| | Unaudited Six months ended 30 June 2018 £000s | Unaudited Six months ended 30 June 2017 *restated £000s |
|---|---|---|
| **International Star brands:** | | |
| Kelo-cote | 10,919 | 6,172 |
| MacuShield | 3,667 | 3,009 |
| Vamousse | 2,683 | – |
| **Local brands:** | | |
| Flamma Franchise | 4,005 | 4,166 |
| Hydromol | 3,455 | 3,333 |
| Aloclair | 3,505 | 3,057 |
| Forceval | 1,811 | 1,863 |
| Optiflo | 1,354 | 1,078 |
| Haemopressin | 1,193 | 1,706 |
| Ashton & Parsons | 1,128 | 928 |
| Ametop | 1,098 | – |
| Oxyplastine | 1,057 | 1,014 |
| **Other Local brands** | 18,580 | 23,048 |
| **Total Revenue** | 54,455 | 49,374 |

### Segmental information By Geography

| | Unaudited Six months ended 30 June 2018 £000s | Unaudited Six months ended 30 June 2017 *restated £000s |
|---|---|---|
| UK and Republic of Ireland | 25,744 | 26,693 |
| Mainland Europe | 12,181 | 10,161 |
| International | 16,530 | 12,520 |
| **Total Revenue** | 54,455 | 49,374 |

## 5. Finance costs

| | Unaudited Six months ended 30 June 2018 £000s | Unaudited Six months ended 30 June 2017 £000s |
|---|---|---|
| On loans and overdrafts | (1,285) | (1,421) |
| Amortised finance issue costs | (152) | (179) |
| Notional interest | (27) | 84 |
| **Interest payable and similar charges** | (1,464) | (1,516) |
| | | |
| Interest income | 39 | 54 |
| Foreign exchange movements | 334 | 91 |
| **Finance Income** | 373 | 145 |
| **Net Finance costs** | (1,091) | (1,371) |

Notional interest relates to the unwinding of the deferred consideration on the MacuVision and Vamousse acquisitions.

## 6. Non-underlying items

| | Unaudited Six months ended 30 June 2018 £000s | Unaudited Six months ended 30 June 2017 £000s |
|---|---|---|
| Unigreg Joint Venture profit on disposal | 1,508 | – |
| Synthasia JV asset impairment and receivables provision | (2,460) | – |
| Nizoral acquisition costs | (307) | – |
| Exceptional compensation income | – | 5,000 |
| **Total non-underlying items before taxation** | (1,259) | 5,000 |

On 18 April 2018 the Group sold its 60% interest in Unigreg Limited to its joint venture partner, Pacific Glory Development Limited, for a consideration of £2.9m. The consideration of £2.9m is being settled in cash with an initial payment of £2.4m received at completion and a deferred payment of £0.5m due on or before 16 April 2019. In addition, all outstanding shareholder loans made by the Group to Unigreg, totalling £1.5m, were repaid in full prior to completion. As at 31 December 2017 the Group's investment in Unigreg was £1.2m, representing the initial investment of £0.5m, together with unremitted profits of £0.7m. The Group profit on disposal was £1.5m net of fees.

# NOTES TO THE HALF YEAR REPORT CONTINUED

For the six months ended 30 June 2018

## 6. Non-underlying items continued

In May 2018 the Group was notified that the import licence partner is not going to receive the required approval to import Suprememil, the infant milk formula brand owned by Synthasia. Following subsequent discussions with the import licence partner and Synthasia management, the Board has concluded to fully impair the joint venture investment of £0.3m and to fully provide for the associated receivables balances of £2.2m. This generates a non-cash, non-underlying impairment charge and receivables provision of £2.5m.

Associated legal and due diligence costs of the Nizoral acquisition (note 8) were £0.3m.

In March 2017, the Group reached a settlement agreement with Sinclair Pharma plc, in connection with the material reduction of business in Kelo-stretch, which was acquired in 2015. The terms of the agreement included a sum of £5.0m of which £4.0m was received in April 2017 and £1.0m was received in June 2018.

## 7. Taxation

Analysis of charge for the period is as follows:

| | Unaudited Six months ended 30 June 2018 £000s | Unaudited Six months ended 30 June 2017 £000s |
|---|---|---|
| Corporation tax | 1,609 | 2,450 |
| Deferred tax | 450 | 995 |
| **Taxation** | 2,059 | 3,445 |

## 8. Goodwill and Intangible assets

| | Goodwill £000s | Brands and distribution rights £000s | Development costs £000s | Assets under development £000s | Total £000s |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 January 2018 (audited) | 16,565 | 263,560 | 725 | 2,500 | 283,350 |
| Additions | – | 60,000 | 25 | – | 60,025 |
| Disposals | – | (18) | – | – | (18) |
| Exchange adjustments | – | 964 | – | – | 964 |
| **At 30 June 2018 (unaudited)** | 16,565 | 324,506 | 750 | 2,500 | 344,321 |
| | | | | | |
| **Amortisation** | | | | | |
| At 1 January 2018 (audited) | – | 4,727 | – | – | 4,727 |
| Amortisation for the period | – | 118 | – | – | 118 |
| **At 30 June 2018 (unaudited)** | – | 4,845 | – | – | 4,845 |
| | | | | | |
| **Net book amount** | | | | | |
| **At 30 June 2018 (unaudited)** | 16,565 | 319,661 | 750 | 2,500 | 339,476 |
| At 1 January 2018 (audited) | 16,565 | 258,833 | 725 | 2,500 | 278,623 |

On 21 June 2018, the Group acquired the exclusive marketing rights to Nizoral, a medical anti-dandruff shampoo brand, in Asia-Pacific from Janssen Pharmaceutica NV (a member of the Johnson & Johnson group of companies) for a total consideration of £60.0m. The acquisition was funded by an underwritten equity placing of new ordinary shares in the capital of the Company to raise gross proceeds of £34.0m, and by the draw-down of £28.0m from a £35.0m extension of the Group's debt facilities.

# NOTES TO THE HALF YEAR REPORT CONTINUED

For the six months ended 30 June 2018

## 9. Trade and other receivables

| | Unaudited 30 June 2018 £000s | Audited 31 December 2017 £000s |
|---|---|---|
| Trade receivables | 19,578 | 17,347 |
| Other receivables | 1,092 | 1,759 |
| Prepayments and accrued income | 2,097 | 2,465 |
| Amounts owed by Joint Venture | – | 2,124 |
| | 22,767 | 23,695 |

## 10. Trade and other payables

| | Unaudited 30 June 2018 £000s | Audited 31 December 2017 £000s |
|---|---|---|
| Trade payables | 8,664 | 6,662 |
| Other taxes and social security costs | 1,641 | 326 |
| Accruals and deferred income | 9,129 | 8,159 |
| Other payables | 926 | 776 |
| Deferred consideration | 656 | 653 |
| Dividend payable | 4,236 | – |
| | 25,252 | 16,576 |

## 11. Other non-current liabilities

| | Unaudited 30 June 2018 £000s | Audited 31 December 2017 £000s |
|---|---|---|
| Deferred consideration | 3,340 | 3,251 |
| Other non-current liabilities | 284 | 274 |
| | 3,624 | 3,525 |

## 12. Earnings per share (EPS)

Basic EPS is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. For diluted EPS, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares.

A reconciliation of the weighted average number of ordinary shares used in the measures is given below:

| | Six months ended 30 June 2018 | Six months ended 30 June 2017 |
|---|---|---|
| | Weighted average number of shares 000s | Weighted average number of shares 000s |
| For basic EPS | 477,676 | 472,900 |
| Share options | 13,561 | 4,338 |
| For diluted EPS | 491,237 | 477,238 |

| | Six months to 30 June 2018 £000s | Six months to 30 June 2017 £000s |
|---|---|---|
| Earnings for basic and diluted EPS | 8,829 | 13,450 |
| Non-underlying items | 901 | (4,150) |
| Earnings for underlying basic and diluted EPS | 9,730 | 9,300 |

The resulting EPS measures are:

| | Six months to 30 June 2018 Pence | Six months to 30 June 2017 Pence |
|---|---|---|
| Basic EPS | 1.85 | 2.84 |
| Diluted EPS | 1.80 | 2.82 |
| Underlying basic EPS | 2.04 | 1.97 |
| Underlying diluted EPS | 1.98 | 1.95 |

# NOTES TO THE HALF YEAR REPORT CONTINUED

For the six months ended 30 June 2018

## 13. Dividends

| | Six months ended 30 June 2018 | | Six months ended 30 June 2017 | |
|---|---|---|---|---|
| | Pence/share | £000s | Pence/share | £000s |
| **Amounts recognised as distributions to owners** | | | | |
| Interim dividend for the prior financial year | 0.443 | 2,104 | 0.403 | 1,904 |
| Final dividend for the prior financial year | 0.888 | 4,236 | 0.807 | 3,821 |
| | | 6,340 | | 5,725 |

The final dividend for the prior financial year was approved by the Board of Directors on 23 March 2018 and subsequently by the shareholders at the Annual General Meeting on 24 May 2018. Following these approvals, final dividend has been included as a liability as at 30 June 2018 and was paid on 11 July 2018 to shareholders who were on the register of members at 15 June 2018.

The proposed interim dividend for the current financial year has not been recognised as a liability as at 30 June 2018. This is in accordance with IAS 10 Events After the Balance Sheet Date.

## 14. Loans and borrowings

Movements in borrowings are analysed as follows:

| | Six months ended 30 June 2018 £000s |
|---|---|
| At 1 January 2018 (audited) | 83,499 |
| Net receipt from borrowings | 17,187 |
| Additional prepaid arrangement fees | (394) |
| Amortisation of prepaid arrangement fees | 152 |
| Exchange movements | 303 |
| **At 30 June 2018 (unaudited)** | 100,747 |

The carrying amount of the Group's borrowings are denominated in the following currencies:

| | Unaudited 30 June 2018 £000s | Audited 31 December 2017 £000s |
|---|---|---|
| GBP | 71,187 | 54,000 |
| USD | 14,737 | 14,409 |
| EUR | 15,929 | 15,929 |
| Loan issue costs | (1,106) | (839) |
| | 100,747 | 83,499 |

## 15. Post balance sheet events

On 6 July 2018 the Medicines and Healthcare products Regulatory Agency (MHRA) approved the UK Marketing Authorisation Application for Diclectin®, a prescription product for the treatment of nausea and vomiting of pregnancy, where conservative management has failed. The MHRA also approved the brand name Xonvea, which will be used for marketing Diclectin in the UK.

Following licence approval, deferred contingent consideration of £0.5m was paid to Duchesnay Inc. in July 2018. The related asset under development of £1.5m will be reclassified to Brands and distribution rights in the 2018 Annual Report.

The Group has a £4.3m intangible asset included within Brands and distribution rights for the anti-malarial products Paludrine, Avloclor and Savarine. These brands were acquired in 2012. These brands have been subject to recent competitor activity in the UK, it's largest market, and, in August 2018, the Group was formally notified by the supplier of the anti-malarial products of their intention to terminate the supply contract.

The termination of supply and the recent competitor activity have been identified as impairment indicators, prompting the requirement for an additional post-balance sheet date impairment review.

Sales of the anti-malarial products fell £0.5m in H1 2018 to £0.4m versus the same period in the prior year. Due to this decline in demand, the Board have concluded that it is not economic to enter a technical transfer project to an alternative manufacturer and therefore have elected to write down the value of the £4.3m intangible asset in full. This will be recognised as an impairment charge within the full year results.

# NOTES TO THE HALF YEAR REPORT CONTINUED

For the six months ended 30 June 2018

## 16. Alternative performance measures

The performance of the Group is assessed using Alternative Performance Measures (APMs). The Group's results are presented both before and after exceptional and non-underlying items. Adjusted profitability measures are presented excluding exceptional and non-underlying items as we believe this provides both management and investors with useful additional information about the Group's performance and aids a more effective comparison of the Group's trading performance from one period to the next and with similar businesses.

In addition, the Group's results are described using certain other measures that are not defined under IFRS and are therefore considered to be APMs. These measures are used by management to monitor on-going business performance against both shorter term budgets and forecasts but also against the Groups longer term strategic plans.

APMs used to explain and monitor Group performance:

| Measure | Definition | Reconciliation to GAAP measure |
|---|---|---|
| Underlying EBITDA | Earnings before interest, tax, depreciation, amortisation and non-underlying items. Calculated by taking profit before tax and financing costs, excluding non-underlying items and adding back depreciation and amortisation. | Note A below |
| Free cash flow | Free cash flow is defined as EBITDA less working capital and non-cash movements (excluding exceptional items), tax payments, interest payments, core capex and other non-cash movements. | Note B below |
| Net debt | Net debt is defined as the Group's bank debt position net of its cash position. | Note C below |

### A. Underlying EBITDA

| Reconciliation of Underlying EBITDA | Unaudited Six months ended 30 June 2018 £000s | Unaudited Six months ended 30 June 2017 £000s |
|---|---|---|
| Profit before tax | 10,888 | 16,895 |
| Non-underlying items | 1,259 | (5,000) |
| Financing costs (note 5) | 1,091 | 1,371 |
| Depreciation | 410 | 226 |
| Amortisation (note 8) | 118 | 157 |
| **Underlying EBITDA** | 13,766 | 13,649 |

## B. Free cash flow

| Reconciliation of free cash flow | Unaudited Six months ended 30 June 2018 £000s | Unaudited Six months ended 30 June 2017 £000s |
|---|---|---|
| Cash generated from operations | 14,856 | 14,975 |
| Financing costs | (1,454) | (1,557) |
| Capital expenditure | (940) | (984) |
| Tax paid | (2,363) | (1,370) |
| **Free cash flow** | 10,099 | 11,064 |

## C. Net debt

| Reconciliation of net debt | Notes | Unaudited 30 June 2018 £000s | Audited 31 December 2017 £000s |
|---|---|---|---|
| Loans and borrowings – current | 14 | (67,047) | (41,719) |
| Loans and borrowings – non-current | 14 | (33,700) | (41,780) |
| Cash and cash equivalents | | 14,479 | 11,184 |
| **Net debt** | | (86,268) | (72,315) |

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# TRADE MARKS

AbsorbaGel™, Actidose Aqua™, Alliance™, Alliance & Logo™, Alliance Generics™, Alliance Pharmaceuticals/Alliance™, Aloclair™, Alostop™, Alphaderm™, Ametop™, Anbesol™, Aquadrate™, Asthon & Parsons™, Ashton & Parsons Infants' Powders™, Atarax™, Atopiclair™, Atopyderm™, Avloclor™, Bio-taches™, Biocorneum™, Biotanoid™, Buccastem™, Buccastem M™, Canker-X™, Ceanel™, Clearway™, ClearWay Stoma Bridge™, Contisol™, Decapinol™, Dekapinol™, Deltacortril™, DeoGel™, Dermachronic™, Dermacide™, Dermamist™, Dermoxyl™, Distamine™, Edenfarm™, Effadiane™, Emezine™, Energeyes™, Esoft™, Eye on Shield Device™, Fadiamone™, Farmil™, Fazol™, Fazol G Nitrate D'Isoconazole™, Fazol Gyn™, Flammacerium™, Flammaclair™, Flammasun™, Flammazine™, Forceval™, Forceval Junior™, Fractar™, Gen-Ongles™, Gregovite™, Gregovite C™, Haemopressin™, Herpclair™, Hydrobath™, Hydromol™, Hydromol and Wave Logo™, Irenat™, ISIB™, Isprelor™, Jonctum™, Kelo-cote™, Kelo-stretch™, Leniline™, Life's Dha ARA & Design™, Lift™, Lift Medical Adhesive Remover™, Lift Plus/Lift +™, LMZ3™, Lypsyl™, Lypsyl – It's on Everyone's Lips™, Lypsyl Kissables™, Lypsyl Shimmer™, Lypsyl Shymmer™, Lysovir™, MacuShield™, MacuShield Gold™, Mela Aura & Design™, Mela Aura Peaux Noires et Métissées™, Men's Life™, Molludab™, Naseptin™, Natau™, Natulan™, NaturCare™, NaturCare Breeze™, NaturCare Fragrant™, NaturCare IPD™, NaturCare Zest™, Neumil™, Nizoral™, Nizral™, NuSeals™, Occlusal™, Ondemet™, Opus™, Oxyplastine™, Paludrine™, Papclair™, Papuduo™, Papulex™, Papustil™, Pavacol™, Pavacol-D™, Pentrax™, Paptavlon™, Periocycline™, Periostan™, Periostand™, Periostat™, Periostatus™, Permitabs™, Posidorm™, PS20™, Purganol-Daguin™, Quinocort™, Quinoderm™, Reloxyl™, Reticus™, Rincinol™, Rizotret™, Rizuderm™, Rympa™, Savarine™, Sebclair™, Sindrogin™, SkinSafe™, SkinSafe Non-Sting Protective Film™, Stemflova™, Syntomet™, Syntometrin™, Syntometrine™, Terra-Cortril™, T-Go™, The Whole Mouth Treatment™, Thwart™, Thyrogard™, Timocort™, Timocreme™, Timodine™, Triatop™, Tridesonit™, Triffadiane™, Trust the Science™, Uniflu™, Unisomnia™, Vamousse™, Vamousse those Varmints™, Variquel™, Vibramycine™, Vita-Dermacide™

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