26 March 2014

Breathing life into medicines

ALLIANCE PHARMA PLC
("Alliance" or the "Group")

Results for the year ended 31 December 2013

Alliance Pharma plc (AIM: APH), the speciality pharmaceutical company, is pleased to announce its results for the year ended 31 December 2013.

Financial Highlights

- Revenue up 1% to £45.5m (2012: £44.9m)
- Pre-tax profit up 11% to £12.0m (2012: £10.8m)
- Basic EPS up 6% to 3.82p (2012: 3.61p)
- Free cash flow of £8.4m (2012: £11.0m)
- Net bank debt of £25.0m (2012: £21.8m)
- Low gearing with Debt to EBITDA ratio of 1.6 times*
- Proposed dividend:
  - Final dividend up 10% to 0.605p per share (2012: 0.55p)
  - Full year dividend up 10% to 0.908p per share (2012: 0.825p)

* including pro forma EBITDA of acquisitions

Operational Highlights

- Three acquisitions of products since June 2013 with annualised gross margin of £2.6m
- France and Germany both now trading profitably
- Hydromol™ continues good growth, achieving year on year revenue growth of 12%
- New packaging equipment for Ashton & Parsons™ Infants' Powders now operational, with production volumes ramping-up

Commenting on the results, Michael Gatenby, Alliance's Chairman, said: "It has been very pleasing to see Alliance return to double-digit profit growth in 2013. Given the strength of our portfolio, the acquisitions made in the past couple of years and the healthy pipeline of opportunities we are seeing, we are confident of good revenue and profit growth over the next few years. We plan to gain momentum from further acquisitions during 2014."

For further information:

Alliance Pharma plc	**+ 44 (0) 1249 466 966**
John Dawson, Chief Executive	
Richard Wright, Finance Director	
Buchanan	**+ 44 (0) 20 7466 5000**
Mark Court / Fiona Henson / Sophie Cowles	
Numis Securities Limited	**+ 44 (0) 20 7260 1000**
Nominated Adviser: Michael Meade / Oliver Cardigan / Freddie Barnfield	
Corporate Broking: David Poutney	

Business review

Alliance returned to double-digit headline profit growth in 2013, with pre-tax profits up by 11% to £12.0m. This robust performance reflects the resilience of the business and the strength of our increasingly broad product portfolio. Since 2010 the business has absorbed a reduction in gross margin from Deltacortril™ of £11m, a product we acquired in 2006 for less than £1m. Excluding Deltacortril, the underlying pre-tax profits grew 21% in 2013 and have grown at a compound annual growth rate of 30% over the past three years, underlining our confidence in our buy and build strategy.

Revenue increased by 1.4% to £45.5m despite some headwinds, including the temporary production issues with ImmuCyst™. This augurs well for our prospects over the next couple of years, as we reap the benefits of recent acquisitions and expect to resume sales of ImmuCyst at the end of this year.

With five acquisitions completed in the past two years, we have continued to demonstrate our ability to find and negotiate attractive deals. Given our strong funding position and healthy pipeline of prospective targets, we expect to continue growth through further acquisitions over the coming months and years.

Trading performance

Our revenue growth in 2013 was underpinned by the continuing success of the Hydromol dermatology range. With revenue up 12% to £5.3m in 2013, Hydromol is now our largest brand. We are increasing manufacturing capacity for Hydromol after demand briefly outstripped production during the year.

Our cyclical toxicology product also made a significant contribution, particularly in the first half, as it reached the peak of its 30-month sales cycle. However, sales are now on the cyclical downswing and, with several competitors entering the market, we expect future sales to be markedly lower.

Revenue of the stoma care products, which we acquired in October 2012, was £3.9m, up slightly on the £3.8m pre-acquisition level.

Our Gelclair™ treatment for oral mucositis accelerated its revenue growth to 16% in 2013 and achieved £1.2m in revenue.

In the first half of 2013 we launched MolluDab™, the first effective treatment for the highly infectious skin condition molluscum contagiosum, which was part of the Beacon Pharmaceuticals acquisition in 2011. It has been warmly received in both prescription and over-the-counter (OTC) markets, with favourable comments in consumer media such as Mumsnet, and sales are steadily building.

The planned hand-back of nine products that we had been distributing for Novartis has been phased through over the past year and is expected to be completed soon. These products were generating some £0.5m of annual gross margin for us, and we received a termination payment of about the same amount.

Revenue of our Nu-Seals™ enteric-coated low-dose aspirin, sold mainly in the Irish Republic, has been reducing more slowly than anticipated since the arrival of generic competitors during 2012. The decline of less than £1m to £3.0m suggests that our strategy of maintaining relationships with pharmacists through a contracted sales force is having some success. The position of Nu-Seals in the implementation schedule of the long-anticipated reference pricing and generic substitution regime means that this may not impact on prices for some time – possibly not until late 2014.

In China we had to cut back deliveries of Forceval™ in 2013 as lower than expected in-market revenue left our distributor overstocked. The distributor is now re-stocking and in-market revenue has recovered somewhat. Elsewhere, there was an interruption in supply of Forceval for the UK and other international markets as a move between contract manufacturers took longer than expected and buffer stocks were exhausted before the new supply commenced.

Financial performance

The gross margin rate in 2013 rose to 60.3% (2012: 55.9%), benefiting from top-of-cycle revenue of our higher-margin toxicology product. We expect the percentage rate to return to closer to 2012 levels in 2014.

We continue to manage our cost base carefully. However, in a busy year for new acquisitions, including a large aborted deal and the Synthasia International deal explained below, deal-related costs totalled £0.9m. Staff costs also increased, following some recruitment in late 2012 to support our growing product portfolio and the build-up of our new Operations team in 2013. As a result, operating costs rose by £1.4m to £13.7m.

Total marketing investment was broadly unchanged, with a modest shift from the dermatology portfolio in favour of the OTC consumer products where we see scope for driving more revenue growth. In 2013 these products included MolluDab, Anbesol™ for mouth ulcers and teething, Quinoderm™ for acne, and Pavacol-D™ cough syrup. In 2014 we will also be supporting Ashton & Parsons Infants' Powders and our newly acquired Lypsyl™ lip care range.

As a result of the higher revenue and improved gross margin rate, operating profit increased 8% to £13.4m (2012: £12.3m). This represents 29.4% of revenue, a strong improvement on the 27.4% of 2012. Profit before tax increased 11% to £12.0m (2012: £10.8m).

Cash generation remained strong, with free cash flow of £8.4m, albeit this was lower than the £11.0m of 2012 because of movements in working capital, particularly trade and other payables being relatively high at December 2012 and then relatively low at December 2013. These movements are within the normal range of variation from month to month.

Financing

Holders of our convertible loan stock continued to convert to equity ahead of the maturity date in November 2013, and all outstanding stock was converted in December. Over recent years conversion of loan stock has increased the number of Alliance shares on the market by some 16%, with a consequent dilutive effect on earnings per share. The completion of conversions brings this dilution to an end.

Our finance costs reduced again in 2013, to £1.4m (2012: £1.5m), benefiting from conversion of the loan stock. We have interest rate swaps in place fixing the LIBOR element of our debt costs at 1.24% on £20m of our debt until 2018, and so are well protected against interest rate rises over the next few years.

In October 2013 we replaced the bank facilities, which were due to mature in 2014, with new enlarged facilities that will be available until June 2018 and are on improved terms. We now have undrawn acquisition facilities of over £20m, positioning us strongly to continue expanding our product portfolio.

Healthy cash generation enabled us to finance nearly £10m of acquisitions in 2013 largely from cash flow. Net debt rose by just £3.2m to £25.0m at the year-end (2012: £21.8m). The bank debt to EBITDA ratio remains comfortable at just 1.6 times, including pre-acquisition EBITDA from the 2013 deals.

Earnings per share

Basic EPS improved 6% to 3.82p (2012: 3.61p), while diluted EPS improved 8% to 3.68p (2012: 3.40p). During 2013 the number of shares in issue increased by 21.0m to 264.1m, 20.0m of which was due to the loan stock conversions and 1.0m from exercises of employee share options.

Dividend

We are maintaining our progressive dividend policy, proposing a final payment of 0.605 pence per ordinary share to give a total dividend for the year of 0.908 pence. This represents an increase of 10% on last year's dividend while still maintaining ample cover of 4.2 times (2012: 4.4 times). The final dividend will be paid on 10 July 2014 to shareholders on the register on 13 June 2014.

Strategy

Our long-established business model is based on acquiring and licensing established products with stable revenue in niche areas with limited or no competition. Most of these require little or no promotional support. In recent years we have been broadening the scope of our portfolio, primarily to include consumer healthcare products. These typically require some modest marketing investment but offer potential for organic growth; they also help to balance risk across the portfolio because they are not exposed to government price control.

In December 2013 we further expanded our consumer healthcare portfolio with the US$3.0m acquisition of the Lypsyl lip care range. We believe the brand has good turnaround potential – it was UK market leader in 2003 but has since suffered from lack of marketing support.

Our UK sales force is focused on dermatology and on specialist hospital products. As we add further products – such as MolluDab for the dermatology team – we will benefit from economies of scale.

We currently generate about a fifth of our revenue outside the UK. In 2012 we launched a strategy to increase the flow of acquisition opportunities by replicating our successful UK model in overseas markets, primarily in Western Europe. In 2012 we appointed Country Managers to develop product portfolios in France and Germany. Both operations are now generating profits: France from the antimalarial brands acquired in 2012 and Germany from Irenat™, a thyroid product acquired from Bayer in January 2014. With both businesses fully operational and profitable we are now well placed to find and negotiate further acquisitions in those countries.

We maintain an opportunistic approach to international products. In June 2013 we acquired the international rights to the obstetric drug Syntometrine™ – a product we already know well from producing and marketing it for the UK. International revenue, which we are managing through distributors, made a useful contribution to profits in the second half of the year.

In January 2014 we supplemented our existing joint venture in China with a small investment to take a minority stake in Synthasia International. We have joint managerial control and the option to take full ownership over the next nine years. Synthasia International, a Shanghai and Hong Kong based business which markets Swiss-made infant formula milk in China, complements the Forceval business as they are both in the mother and baby market and sold through largely the same channels. This gives us an operating base from which to acquire other products in the fast-growing Chinese market.

Our project to introduce new production machinery for Ashton & Parsons Infants' Powders in partnership with the contract manufacturer has recently completed. We are now ramping-up sales, which had been constrained by limited production capacity. We have also been able to increase the product's consumer appeal with redesigned packaging in easy-open sachets.

We look forward to the resumption of ImmuCyst production at the end of this year. Sanofi Pasteur has completed refurbishment of its aseptic manufacturing plant to address regulatory issues, and the lengthy process of obtaining approvals is progressing on schedule. Customers have switched to using an alternative product, but there are encouraging indications that a number intend to return to ImmuCyst. It is unlikely to regain all of its former 90% market share, but we expect a steady build-up of revenue through 2015.

Team

In 2013 we set up a small Operations team under Stephen Kidner, which is already making a substantial contribution to optimising efficiency in the supply chain.

After a decade at the helm, our Chairman, Michael Gatenby, retires from the Company at the Annual General Meeting. He will be succeeded by non-executive director Andrew Smith, who has been with Alliance since 2006. Non-executive director Paul Ranson, who has also been with Alliance for 10 years, has also indicated he intends to retire from the Board later this year.

Charity

For some years we have been donating around £20,000 worth of products annually to International Health Partners, a charity that distributes medicines to doctors in the world's neediest areas. In 2013 we increased the value of our contribution to £41,000 including £10,000 cash for the appeal following the devastation that Typhoon Haiyan caused in the Philippines.

Outlook

In the UK a new five-year price regulation regime began at the start of this year, requiring us to pay a rebate of 3.74% on sales under the scheme. However, these now account for less than a third of our total revenue and the impact on revenue will be about £0.5m this year.

Our buy and build strategy has been very effective at producing growth, which at the headline level has been clouded by Deltacortril's decline from its peak of £11m margin in 2010 to just £0.3m in 2013. At this level, changes in Deltacortril profits will no longer mask the benefit of future acquisitions.

Given the strength of our portfolio, the acquisitions made in the past couple of years and the healthy pipeline of opportunities we are seeing, we are confident of good revenue and profit growth over the next few years. We plan to gain momentum from further acquisitions during 2014.

Consolidated Income Statement

	Note	Year ended 31 December 2013 £ 000s	Year ended 31 December 2012 £ 000s
Revenue		**45,513**	44,897
Cost of sales		**(18,072)**	(19,779)
Gross profit		**27,441**	25,118
Operating expenses			
Administration and marketing expense		**(13,027)**	(11,856)
Amortisation of intangible assets		**(422)**	(573)
Share-based employee remuneration		**(632)**	(369)
		(14,081)	(12,798)
Operating profit		**13,360**	12,320
Finance costs			
Interest payable and similar charges	2	**(1,281)**	(1,541)
Interest income	2	**2**	-
Other finance (charges)/income	2	**(72)**	30
		(1,351)	(1,511)
Profit on ordinary activities before taxation		**12,009**	10,809
Taxation	3	**(2,425)**	(2,119)
Profit for the year attributable to equity shareholders		**9,584**	8,690
Earnings per share			
Basic (pence)	5	**3.82**	3.61
Diluted (pence)	5	**3.68**	3.40

Consolidated Statement of Comprehensive Income

	Year ended 31 December 2013	Year ended 31 December 2012
	£ 000s	£ 000s
Profit for the period	**9,584**	8,690
Other comprehensive income		
Other items recognised directly in equity **Items that may be reclassified to profit or loss**		
Interest rate swaps – cash flow hedge	**443**	6
Deferred tax on interest rate swaps	**(93)**	(2)
Total comprehensive income for the period	**9,934**	8,694

Consolidated Balance Sheet

	Note	**31 December 2013**	**31 December 2013**	31 December 2012	31 December 2012
	Note	**£ 000s**	**£ 000s**	£ 000s	£ 000s
Assets					
Non-current assets					
Intangible assets	6	**89,061**		79,890	
Property, plant and equipment		**592**		564	
Derivative financial instruments		**443**		-	
			90,096		80,454
Current assets					
Inventories		**5,468**		5,393	
Trade and other receivables	7	**10,539**		10,145	
Cash and cash equivalents	10	**888**		4,634	
			16,895		20,172
Total assets			**106,991**		100,626
Equity					
Ordinary share capital		**2,641**		2,430	
Share premium account		**29,380**		25,297	
Share option reserve		**1,424**		792	
Reverse takeover reserve		**(329)**		(329)	
Other reserve		**350**		-	
Retained earnings		**31,202**		23,658	
Total equity			**64,668**		51,848
Liabilities					
Non-current liabilities					
Long term financial liabilities		**20,881**		20,225	
Other liabilities		**-**		20	
Deferred tax liability		**6,294**		6,124	
Provisions for other liabilities		**199**		364	
			27,374		26,733
Current liabilities					
Cash and cash equivalents	10	**2,125**		1	
Financial liabilities		**2,895**		6,250	
Convertible debt		**-**		4,189	
Corporation tax		**1,154**		1,322	
Trade and other payables	8	**8,585**		10,086	
Provisions for other liabilities		**190**		197	
			14,949		22,045
Total liabilities			**42,323**		48,778
Total equity and liabilities			**106,991**		100,626

Consolidated Statement of Changes in Equity

	Ordinary share capital	Share premium account	Share option reserve	Reverse takeover reserve	Other reserve	Retained earnings	Total equity
	£ 000s	£ 000s	£ 000s	£ 000s	£ 000s	£ 000s	£ 000s
Balance 1 January 2013	2,430	25,297	792	(329)	-	23,658	51,848
Issue of shares	211	4,083	-	-	-	-	4,294
Dividend paid	-	-	-	-	-	(2,040)	(2,040)
Share options charge	-	-	632	-	-	-	632
Transactions with owners	211	4,083	632	-	-	(2,040)	2,886
Profit for the period	-	-	-	-	-	9,584	9,584
Other comprehensive income							
Interest rate swaps – cash flow hedge	-	-	-	-	443	-	443
Deferred tax on interest rate swap	-	-	-	-	(93)	-	(93)
Total comprehensive income for the period	-	-	-	-	350	9,584	9,934
Balance 31 December 2013	**2,641**	**29,380**	**1,424**	**(329)**	**350**	**31,202**	**64,668**

Consolidated Cash Flow Statements

	Note	**Year ended 31 December 2013**	Year ended 31 December 2012
		£ 000s	£ 000s
Cash flows from operating activities			
Cash generated from operations	9	**12,546**	14,417
Tax paid		**(2,516)**	(1,982)
Cash flows from operating activities		**10,030**	12,435
Investing activities			
Interest received		**2**	-
Payment of deferred consideration		**(20)**	(20)
Development costs capitalised		**(63)**	(107)
Net assets acquired in Opus, net of cash		**-**	(422)
Purchase of property, plant and equipment		**(298)**	(73)
Purchase of other intangible assets		**(9,534)**	(12,377)
Net cash (used in)/ received from investing activities		**(9,913)**	(12,999)
Financing activities			
Interest paid and similar charges		**(1,232)**	(1,198)
Loan issue costs		**(500)**	(100)
Proceeds from exercise of share options		**82**	190
Dividend paid		**(2,040)**	(1,803)
Receipt from borrowings		**28,500**	10,000
Repayment of borrowings		**(30,725)**	(3,000)
Net cash received from/(used in) financing activities		**(5,915)**	4,089
Net movement in cash and cash equivalents		**(5,798)**	3,525
Cash and cash equivalents at the beginning of the period		**4,633**	1,078
Exchange (losses)/gains on cash and cash equivalents		**(72)**	30
Cash and cash equivalents at the end of the period	10	**(1,237)**	4,633

1. Basis of preparation

The financial information set out in the announcement does not constitute the Group's statutory accounts for the year ended 31 December 2013 or 31 December 2012. The auditors reported on those accounts; their report was (i) unqualified, (ii) did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain statements under section 498 (2) or (3) of the Companies Act 2006. The statutory accounts for the year ended 31 December 2013 have not yet been delivered to the Registrar of Companies. The statutory accounts for the year ended 31 December 2012 were delivered to the Registrar of Companies as published on the Group’s website on 1 May 2013.

2. Finance costs

	Year ended 31 December 2013 £ 000s	Year ended 31 December 2012 £ 000s
Interest payable and similar charges		
On loans and overdrafts	**(1,222)**	(1,466)
Amortised finance issue costs	**(22)**	(26)
Notional interest	**(37)**	(49)
	(1,281)	(1,541)
Interest income	**2**	-
Other finance charges		
Foreign exchange movement on euro denominated debt	**(72)**	30
	(72)	30
Finance costs – net	**(1,351)**	(1,511)

Notional interest relates to the unwinding of the discount applied to provisions.

3. Taxation

Analysis of charge in period.

	Year ended 31 December 2013 £ 000s	Year ended 31 December 2012 £ 000s
United Kingdom corporation tax at 23.25% (2012: 24.5%)		
In respect of current period	**2,242**	1,910
Adjustment in respect of prior periods	**106**	-
	2,348	1,910
Deferred tax		
Origination and reversal of temporary differences	**77**	209
Taxation	**2,425**	2,119

4. Dividends

	Year ended 31 December 2013		Year ended 31 December 2012	
	Pence/share	**£ 000s**	Pence/share	£ 000s
Amounts recognised as distributions to owners in the year				
Interim dividend for the prior financial year	**0.275**	**666**	0.250	600
Final dividend for the prior financial year	**0.550**	**1,374**	0.500	1,203
		2,040		1,803
Interim dividend for the current financial year	**0.303**	**800**	0.275	666

The proposed final dividend of 0.605 per share for the current financial year was approved by the Board of Directors on 25 March 2014 and is subject to the approval of shareholders at the Annual General Meeting. The proposed dividend has not been included as a liability as at 31 December 2013 in accordance with IAS 10 Events After the Balance Sheet Date. The interim dividend for the current financial year was paid on 15 January 2014. Subject to shareholder approval, the final dividend will be paid on 10 July 2014 to shareholders who are on the register of members on 13 June 2014.

5. 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 year. 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:

	Year ended 31 December 2013	Year ended 31 December 2012
For basic EPS calculation	**250,836,337**	240,881,464
Employee share options	**2,020,036**	2,032,846
Conversion of Convertible Unsecured Loan Stock (CULS)	**12,154,481**	20,053,595
For diluted EPS calculation	**265,010,854**	262,967,905

A reconciliation of the earnings used in the different measures is given below:

	Year ended 31 December 2013 £ 000s	Year ended 31 December 2012 £ 000s
Earnings for basic EPS	**9,584**	8,690
Interest saving on conversion of CULS	**204**	337
Tax effect of interest saving on conversion of CULS	**(47)**	(81)
Earnings for diluted EPS	**9,741**	8,946

The resulting EPS measures are:

	Year ended 31 December 2013 Pence	Year ended 31 December 2012 Pence
Basic EPS	**3.82**	3.61
Diluted EPS	**3.68**	3.40

6. Intangible assets

	Goodwill on consolidation £ 000s	Purchased Goodwill £ 000s	Technical know-how, trademarks and distribution rights £ 000s	Development costs £ 000s	Total £ 000s
Cost					
At 1 January 2013	1,144	2,449	78,107	310	82,010
Additions	-	-	9,534	63	9,597
Disposals	-	-	(4)	-	(4)
At 31 December 2013	**1,144**	**2,449**	**87,637**	**373**	**91,603**
Amortisation and impairment					
At 1 January 2013	-	-	2,120	-	2,120
Amortisation for the year	-	-	422	-	422
At 31 December 2013	**-**	**-**	**2,542**	**-**	**2,542**
Net book amount					
At 31 December 2013	**1,144**	**2,449**	**85,095**	**373**	**89,061**
At 1 January 2013	1,144	2,449	75,987	310	79,890

	Goodwill on consolidation £ 000s	Purchased Goodwill £ 000s	Technical know-how, trademarks and distribution rights £ 000s	Development costs £ 000s	Total £ 000s
Cost					
At 1 January 2012	1,144	600	65,730	203	67,677
Additions	-	1,849	12,377	107	14,333
At 31 December 2012	1,144	2,449	78,107	310	82,010
Amortisation and impairment					
At 1 January 2012	-	-	1,547	-	1,547
Amortisation for the year	-	-	573	-	573
At 31 December 2012	-	-	2,120	-	2,120
Net book amount					
At 31 December 2012	1,144	2,449	75,987	310	79,890
At 1 January 2012	1,144	600	64,183	203	66,130

7. Trade and other receivables

	31 December 2013 £ 000s	31 December 2012 £ 000s
Trade receivables	**9,131**	9,583
Other receivables	**536**	212
Prepayments and accrued income	**804**	350
Amounts owed by joint venture	**68**	-
	10,539	10,145

8. Trade and other payables – current

	31 December 2013 £ 000s	31 December 2012 £ 000s
Trade payables	**1,118**	902
Other taxes and social security costs	**1,123**	1,225
Accruals and deferred income	**6,028**	7,019
Other payables	**316**	940
	8,585	10,086

9. Cash generated from operations

	Year ended 31 December 2013 £ 000s	Year ended 31 December 2012 £ 000s
Result for the period before tax	**12,009**	10,809
Interest paid	**1,281**	1,466
Interest income	**(2)**	-
Other finance costs	**72**	45
Depreciation of property, plant and equipment	**266**	274
Amortisation of intangibles	**422**	573
Change in inventories	**(75)**	505
Change in trade and other receivables	**(394)**	(724)
Change in trade and other payables	**(1,665)**	1,100
Share options charges	**632**	369
Cash flows from operating activities	**12,546**	14,417

10. Cash and cash equivalents

	31 December 2013 £ 000s	31 December 2012 £ 000s
Cash at bank and in hand	**888**	4,634
Working capital facility	**(2,125)**	(1)
	(1,237)	4,633