For immediate release 23 March 2021

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

Results for the year ended 31 December 2020

Strong performance from Consumer Healthcare brands

Very strong cash generation

2021 has started well, with the recent Amberen™ acquisition set to enhance growth

Alliance Pharma plc (AIM: APH), the international healthcare group, is pleased to announce its preliminary results for the year ended 31 December 2020. The Group continued to deliver a robust operational and financial performance in 2020, despite the challenges posed by COVID-19.

OVERVIEW

- Strong performance from Consumer Healthcare brands, which now account for over two thirds of Group see-through revenues*
    - Kelo-cote™ revenues up 12%
    - Nizoral™ see-through revenues* up 4%
    - See-through revenues* overall up 1% to £93.0m (2019: £92.4m)
    - Statutory revenues up 2% to £85.3m (2019: £83.7m)
- Prescription Medicine revenues down 14% to £44.5m (2019: £51.9m), reflecting delays in routine treatments as a result of COVID-19
- Group see-through revenue* in total down 5% (down 5% CCY*) to £137.5m (2019: £144.3m)
- Group statutory revenues down 4%, to £129.8m (2019: £135.6m)
- Substantial US acquisition completed in December 2020, bringing a highly successful and fast-growing brand, Amberen™, into the Group, and creating scale in the Group's US operations
- Underlying profit before tax up 2% to £33.5m (2019: £32.9m)
- Reported profit before tax down 58% to £13.0m (2019: £31.1m), due to non-cash impairment and amortisation charges, and acquisition costs relating to the Biogix Inc acquisition
- Group leverage post acquisition of Biogix Inc at 2.43 times, up from 1.48 times at December 2019; leverage expected to decrease to below 2.0 times during 2021
- Free cash flow very strong at £34.1m, helped by favourable movements in net working capital
- Cash generated from operations up 19% to £46.4m (2019: £39.0m)
- Proposed final dividend payment of 1.074p per share, giving a total dividend of 1.610p (2019: 0.536p)

FINANCIAL SUMMARY

Year ended 31 December	2020 £m	2019 £m	Growth
Revenue (see-through basis)*	137.5	144.3	-5%
Revenue (statutory basis)	129.8	135.6	-4%
Gross profit	82.8	86.1	-4%
Underlying profit before taxation	33.5	32.9	2%
Reported profit before taxation	13.0	31.1	-58%
Underlying basic earnings per share	5.21p	5.09p	2%
Reported basic earnings per share	1.54p	4.80p	-68%
Free cash flow*	34.1	29.1	17%
Cash generated from operations	46.4	39.0	19%
Leverage	2.43x	1.48x	
Net debt*	109.4	59.2	
Proposed total dividend per share	1.610p	0.536p	200%

** The performance of the Group is assessed using Alternative Performance Measures ("APMs"), which are measures that are not defined under IFRS, but are used by management to monitor ongoing business performance against both shorter term budgets and forecasts and against the Groups longer term strategic plans. APMs are defined in note 20.*

Specifically, see-through revenue includes sales from Nizoral™ as if they had been invoiced by Alliance. Under the terms of the transitional services agreement with Johnson & Johnson (J&J), Alliance receives the benefit of the net profit on sales of Nizoral from the date of acquisition up until the product licences in each of the Asia-Pacific territories transfer from J&J to Alliance. For statutory accounting purposes the product margin on Nizoral sales is included within Revenue, in line with IFRS 15.

Commenting on the results, Peter Butterfield, Alliance Pharma's Chief Executive Officer, said:

"The Group delivered a robust operational and financial performance in 2020, despite the challenges of the pandemic. Whilst top line revenue growth was constrained, our Consumer Healthcare business has performed well and we have seen some strong performances from a number of our brands, in particular Kelo-cote.

"Through maintaining good control of our operating costs, we have continued to deliver a resilient underlying operating performance and our free cash flow has also remained very strong, enabling us to pay down more of our debt than expected ahead of completing the Biogix acquisition in December 2020.

"This strategically significant acquisition bears testament to our ability to continue to deliver on our longer-term growth strategy, notwithstanding the global pandemic. In addition to bringing another sizeable and fast-growing brand into the Group, it significantly enhances the scale of our business operations in the US, the world's largest consumer healthcare market, and in consumer healthcare more generally.

"2021 has started well and we remain confident in our ability to continue to deliver a strong operational and financial performance, in line with market expectations. We look forward to regaining the strong momentum and revenue growth that the Group has enjoyed in recent years, whilst also benefiting from the additional scale and future growth opportunities that Amberen brings.

"Whilst our near-term focus will be on integrating Biogix into our existing US business, we will continue to look for opportunities to selectively add to our portfolio in line with our strategy of acquiring consumer healthcare brands in international markets in which we already have a presence."

CONFERENCE CALL & WEBCAST

A conference call for analysts will be held at 10.30am this morning, 23 March 2021. Analysts who require dial-in details, please contact Buchanan at alliancepharma@buchanan.uk.com.

A recorded webcast of the analyst conference call, including the investor presentation slides, will be made available this afternoon at this link:

https://webcasting.buchanan.uk.com/broadcast/60180f8da6bfbf43d06ac2ea

The recorded webcast will also be made available at the investor section of Alliance's website, https://www.alliancepharmaceuticals.com/investors/

For more information, please contact Buchanan on 020 7466 5000 or email alliancepharma@buchanan.uk.com.

For further information

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About Alliance

Alliance Pharma plc (AIM: APH) is an international healthcare group, headquartered in the UK with subsidiaries 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 hold the marketing rights to around 80 Consumer Healthcare brands and Prescription Medicines, which are managed on a portfolio basis according to their growth potential. Promotional investment is focused primarily on our Consumer Healthcare brands, many of which have significant international or multi-territory reach. Our Prescription Medicines are generally sold in a more limited number of local markets, and most require little or no promotional investment.

Our strategy allows us to deliver good organic growth and to enhance our growth rate through carefully selected acquisitions.

For more information on Alliance, please visit our website: www.alliancepharmaceuticals.com

CHIEF EXECUTIVE'S STATEMENT

Trading performance

Overview

Against the backdrop of the COVID-19 pandemic, the Group delivered a robust performance in 2020, with see-through revenues down only 5% to £137.5m (2019: £144.3m), and a similar level of decline on a constant currency basis. On a statutory reported basis, revenues were down 4% to £129.8m (2019: £135.6m).

Whilst gross profit reduced, in line with revenues, by 4% to £82.8m (2019: £86.1m), a slowdown in the natural run rate of discretionary spend, coupled with continued good control over the rest of our operating cost base and lower financing and borrowing costs, resulted in underlying profit before tax increasing by 2% to £33.5m (2019: £32.9m).

Non-cash impairment and amortisation charges, coupled with acquisition costs for the Biogix acquisition, meant reported profit before tax decreased 58% to £13.0m (2019: £31.1m).

As previously announced, we have reclassified our portfolio into Consumer Healthcare brands and Prescription Medicines, in recognition of the inherently different characteristics of these categories, Consumer Healthcare brands being the main driver of growth within the business, whilst revenues from our largely unpromoted pharmaceutical products provide cash generation.

Consumer Healthcare brands performance

Our Consumer Healthcare brands continued to perform strongly notwithstanding the global challenges, with see-through revenues* up 1% to £93.0m (2019: £92.4m) and statutory revenues up 2% to £85.3m (2019: £83.7m). These brands now account for more than two thirds of Group see-through revenues, with this proportion increasing further in 2021, with the inclusion of Amberen.

Kelo-cote – scar prevention and treatment

We were particularly pleased with the performance of Kelo-cote, which delivered good growth in 2020, continuing the trend from 2019, with sales up 12% to £34.7m (2019: £31.0m), due to further strong demand from China from the second quarter onwards as local lockdown restrictions eased. Across the rest of the APAC region, ongoing local lockdown restrictions in response to the pandemic have had a more sustained impact on the brand's performance, likewise in South America and some countries within EMEA. Nevertheless, we expect sales across all these regions to return strongly once lockdown restrictions are eased.

In common with many consumer-facing businesses, the pandemic has resulted in an overall shift to online sales platforms, and we continue to focus on our digital marketing strategies to increase brand awareness both with end users of the product and with healthcare professionals around the globe. Pre-pandemic, digital was already an established and important sales channel for Kelo-cote, with around 40% of our Chinese sales being facilitated by online platforms.

Nizoral - medicated anti-dandruff shampoo

Nizoral sales were resilient, particularly in China, with the brand generating see-through sales* of £21.0m, up 4% on 2019 (2019: £20.2m).

China continues to be an important market for Nizoral and a future growth-driver for this key brand. As previously announced, in July 2020 we launched a new formulation of Nizoral (branded locally as Triatop) in China, to sit alongside the original formulations, and this has contributed to the robust overall brand growth this year.

We now have distribution agreements in place for all territories in the region. The vast majority of the product licence transfers have been completed. By the end of 2022 we will have concluded our partnership with Johnson & Johnson through the transition period.

Other Consumer brands

Performance across the rest of our Consumer Healthcare portfolio was mixed, with revenues down 9% in 2020 to £37.3m (2019: £41.2m). Whilst we continued to see strong performances from some of the brands in this part of our portfolio, for example Ashton & Parsons™ (teething gel), which saw sales increase 27% to £3.4m (2019: £2.7m), boosted by new UK retail listings following the launch of the new gel presentation, others faced more challenging trading conditions due to the pandemic.

Vamousse (prevention and treatment of head lice) naturally had a difficult year in 2020, with sales down 14% at £5.6m (2019: £6.5m), as a result of pandemic-related school closures in the US, the product's primary market. Whilst sales held up well during the first half of the year, sales in the second half of the year were significantly lower than those achieved during the same period last year. Despite this however, Vamousse has continued to gain market share in the US and is set to return strongly once lockdown is eased. We expect a recovery in sales as schools progressively re-open.

Sales of MacuShield (eye health supplement) for the first half of 2020 were down 21% compared with the second half of 2019, primarily due to the temporary closure of bricks and mortar retail outlets and opticians in the UK. However, the second half of 2020 saw a reversal of this trend, with sales up 38% on those for the first half of 2020 and 10% up on those for the same period last year. Overall sales were down 18% on those for the previous year at £6.8m (2019: £8.2m), partly due to distributor stocking and changes in trading arrangements with a key distributor during the first half of 2019 resulting in sales being higher than normal for that period. With in-market sales in the UK now returning to growth, we again expect this brand to continue its growth trend throughout 2021 and beyond.

We are confident that as restrictions are eased, we will start to see a return in distributor-led demand for some of our other Consumer brands which were adversely affected by the pandemic in 2020.

Prescription Medicines performance

Revenues from our Prescription Medicines portfolio in 2020 were £44.5m, down 14% on the corresponding period last year (2019: £51.9m), with demand for some of our prescription-driven products being adversely impacted by delays to routine treatments, as healthcare professionals focused on maintaining hospital capacity to treat patients with COVID-19. However, we did see a modest recovery in the second half, with revenues up 7% on those for the first half, and we anticipate demand will return as local restrictions are eased and the provision of routine healthcare treatment normalises.

We continue to actively manage our Prescription Medicines portfolio, discontinuing or disposing of a small number of products which deliver very low revenues and margins whilst continuing to put limited promotional support behind some of the larger brands such as Hydromol™, an emollient product for the treatment of eczema, and Forceval™, a nutritional support product, which continued to deliver double digit growth in the UK in 2020. As a result, we expect sales from this part of our portfolio to remain relatively stable, once the disruption to routine treatments caused by the pandemic has subsided. These products continue to provide good cash generation for the business and given their limited requirement for promotional investment, they continue to play an important part in the overall make-up of our product portfolio.

Regional performance

As previously announced, in the first half of 2020, we re-organised our regional performance commentary and segmental analysis, to align more closely with the Group's commercial reporting structure, which focuses on the regions of Europe, Middle East and Africa (EMEA), Asia Pacific (APAC) and the Americas (AMER).

EMEA[1]

Across the EMEA region as a whole, revenues for 2020 were down 4% versus the previous year at £93.8m (2019: £97.4m).

As previously noted, EMEA accounts for over 90% of our Prescription Medicines revenues. Whilst we saw a reduction in demand for Prescription Medicines in 2020, due primarily to delays in routine treatments, this reduction was partially offset by continued good growth from our Consumer Healthcare portfolio in this region, in particular Kelo-cote, to satisfy both export and local demand.

Whilst our distributor business in EMEA performed strongly during the first half of the year, with revenues up 8% versus the comparable period last year, during the second half, the landscape became more challenging, as distributors sought to respond to changes in local trading conditions as a result of COVID-19, resulting in full year EMEA-distributor revenues being down 9% on those for 2019.

APAC[2]

The revenue base in this region is dominated by Kelo-cote and Nizoral, which collectively accounted for just over 85% of sales in 2020.

See-through sales across the APAC region as a whole were down 3% versus the prior year at £37.0m (2019: £38.2m), primarily due to the reduction in both Kelo-cote and Nizoral sales across the majority of countries in the region with the exception of China which, as previously noted, benefited from a recovery in demand from the second quarter onwards, as local lockdown restrictions eased.

AMER[3]

Sales in the AMER region fell by £2.0m (23%) to £6.7m in 2020 (2019: £8.7m), reflecting both the fall in Vamousse revenues in the US and weaker demand from our international distributor business in South America, in response to COVID-19.

Acquisitions

In December 2020, we successfully completed the acquisition of Biogix Inc and the Amberen brand, a highly successful and fast-growing brand for the relief of menopause symptoms. Headline consideration for the acquisition (excluding working capital and currency hedging costs) was US$110.0m (£81.8m), paid for in cash from the Group's existing financial resources.

As an established, clinically evidenced brand with significant sales and good growth potential, in a growing market, Amberen fits perfectly with our strategy of acquiring established consumer healthcare brands in territories in which we already have a presence. The acquisition of Biogix has created scale in our business in the US, whilst also providing us with a third key brand for the delivery of future organic growth.

Completing this strategically significant acquisition against the backdrop of the pandemic bears testament to our ability to continue to deliver on our longer-term growth strategy.

Operational review

In 2021, we will be rolling out our new Innovation & Development (I&D) process and Digital Excellence training programme to further support the growth of our main Consumer Healthcare brands.

As previously reported, the new global Sales & Operations Planning (S&OP) process rolled out in 2019 has proved invaluable to us this year in helping to manage the demand fluctuations caused by COVID-19 and in maintaining continuity of supply.

We have also put in place a new software tool to support our budgeting, forecasting and monthly reporting processes, through automating workflows such as consolidations and report generation. Our new system allows for robust real-time data provision and better customised reporting for users.

Our ERP system has progressed well and is on track to go live in Q2 2021, providing business benefits and scale-up capability through the standardisation of processes.

People

In 2020 Alliance took part for the first time in the Great Place to Work® survey, to increase our understanding of employee engagement within the business. We were extremely pleased to achieve a Trust Index© rating of 79%, just six percentage points below that for the World's Best Workplaces Top 25, and to have been Great Place to Work-Certified™ both in the UK and in China.

Our social impact activities during the year focused on providing financial support to charities local to our office locations, to enable them to better support those impacted by COVID-19. During the year, Alliance donated more than £150,000 to charities in several different countries to support them in delivering services through the pandemic. We also continued our donations to International Health Partners, donating approximately 12,000 units of product with a value in excess of £100,000 in 2020, to support those suffering due to a lack of access to medicines.

Throughout the year, there have been numerous examples of our employees 'going the extra mile' and thinking creatively to ensure that our products continue to be available to consumers and patients who need them, overcoming the challenges that remote working has brought, and continuing to deliver great results. In addition to maintaining the performance of the base business as we navigated our way through the challenges of local lockdowns and the uncertainties of Brexit, we have also successfully completed a large and strategically significant acquisition – an achievement which, again, bears testament to the strength of our culture and the 'can do' attitude of our people, wherever in the world they may be located.

Our UK-based facilities team have made good use of the time spent in lockdown to make a start on further significant refurbishment works at our Avonbridge House headquarters in Chippenham – a project made considerably easier by almost all other employees working from home. Internal designs have been changed to create more collaborative workspaces, and we continue to evaluate how we develop our future ways of working to make best use of our office space once pandemic restrictions are eased.

The Group currently employs more than 200 people in 11 locations around the world; all committed to the successful delivery of Alliance's vision: "To be a leading international healthcare business built around products which are clinically valuable to patients. We will be both the partner and employer of choice."

We recognise that great results can only be achieved through the combined efforts of our dedicated team of colleagues around the globe, our partners, and customers, and through the strong collaborative culture that we have built within Alliance. At no time has this culture of working together been more valuable to us than during 2020, as we have sought to navigate the challenges of the global pandemic.

On behalf of the Board, I would like to take this opportunity to extend my sincere thanks to all those who have worked so hard to deliver an excellent performance for Alliance in 2020, against the backdrop of the global pandemic, in what continue to be unprecedented and challenging times.

Whilst inevitably a challenging year, due to the uncertainty brought about by the global pandemic and consequential restrictions imposed by governments around the world, the Group's performance, and achievements in 2020 bear testament to the robustness and resilience of our product portfolio, our business model, and our people. As a result of our robust performance, we have not needed to make use of any of the UK government assistance schemes, nor have we furloughed any of our employees, or made any redundancies due to the pandemic.

Current trading and outlook

2021 has started well for the Group. Our integration of the Biogix business is on track and we remain confident in our ability to continue to respond effectively to the challenges of COVID-19, and to maintain our robust operational and financial performance to deliver results in line with current market expectations.

Operationally, the priorities for the Group in 2021 will be:

- Continuing to invest in our Consumer Healthcare brands in order to maximise their organic growth potential, supported by the rollout of our new I&D process and Digital Excellence training programme,
- Integrating Biogix and Amberen into the US-based Alliance business,
- Continuing to review opportunities to add selectively to our portfolio; our focus remains on augmenting our consumer healthcare brands in international markets where we already have a presence.

Peter Butterfield

Chief Executive Officer

23 March 2021

[1] This combines revenues previously disclosed under the UK and Republic of Ireland and Western Europe, with revenues from our distributor business across Central and Eastern Europe, the Middle East and Africa, all of which were previously reported as part of International revenues.

[2] APAC revenues were recognised previously as part of International revenues.

[3] This region comprises revenues previously disclosed under the US (including Canada) segment, together with revenues from South America, previously included as part of International revenues.

FINANCIAL REVIEW

Summary underlying income statement

Year ended 31 December	2020 £m	2019 £m	Growth
Revenue (see-through basis)*	137.5	144.3	-5%
Revenue (statutory basis)	129.8	135.6	-4%
Gross profit	82.8	86.1	-4%
Administration and marketing expenses	(44.6)	(46.7)	-5%
Underlying EBITDA*	38.6	39.4	-2%
Underlying depreciation, amortisation and impairment	(1.8)	(2.0)	-11%
Underlying EBIT	36.8	37.4	-2%
Finance costs	(3.3)	(4.6)	-28%
Underlying profit before taxation	33.5	32.9	2%
Reported profit before taxation	13.0	31.1	-58%
Underlying basic earnings per share	5.21p	5.09p	2%
Reported basic earnings per share	1.54p	4.80p	-68%
Proposed total dividend per share	1.610p	0.536p	200%

Note: Underlying profitability metrics are presented as we believe this provides investors with useful information about the performance of the business. For 2020, underlying results exclude the amortisation and impairment of intangible assets announced at the half year and £1.3m of costs associated with the Biogix acquisition; for 2019, underlying results exclude a £1.7m charge on the return of the Xonvea rights and a £0.1m charge on the disposal of Flammacerium. Further detail can be found in note 4.

** The performance of the Group is assessed using Alternative Performance Measures ("APMs"), which are measures that are not defined under IFRS, but are used by management to monitor ongoing business performance against both shorter term budgets and forecasts and against the Groups longer term strategic plans. APMs are defined in note 20.*

Specifically, see-through revenue includes sales from Nizoral™ as if they had been invoiced by Alliance. Under the terms of the transitional services agreement with J&J, Alliance receives the benefit of the net profit on sales of Nizoral from the date of acquisition up until the product licences in each of the Asia-Pacific territories transfer from J&J to Alliance. For statutory accounting purposes the product margin on Nizoral sales is included within Revenue, in line with IFRS 15.

The Group delivered a robust financial performance in 2020, against the backdrop of the global pandemic, with see-through revenues decreasing just 5% to £137.5m (2019: £144.3m) and statutory revenues decreasing 4% to £129.8m (2019: £135.6m). This was largely due to continued strong performance by our Consumer Healthcare brands, in particular Kelo-cote. However, reductions in operating costs, together with lower interest and financing costs, resulted in a 2% increase in underlying profit before taxation in 2020 to £33.5m (2019: £32.9m). Reported profit before tax decreased 58% in 2020 to £13.0m (2019: £31.1m), primarily due to amortisation and impairment charges incurred as a result of the decision to adopt finite useful lives for our Prescription Medicines and certain other brand assets from the start of 2020.

Group revenues were only minimally impacted by exchange rate movements, which benefited by approximately £0.3m from Sterling strengthening against the US Dollar through the second half of the year, offsetting a slight weakening in Sterling against the Euro. The impact of exchange rate movements at the operating profit level was minimal.

Gross profit decreased by a similar percentage to revenues, to £82.8m, down 4% versus the previous year (2019: £86.1m), with gross margin increasing slightly, from 59.7% to 60.2% of see-through revenue, and from 63.5% to 63.8% of statutory revenue, due mainly to favourable changes in product mix.

Operating costs (defined as underlying administration and marketing expenses, excluding underlying depreciation, amortisation, and impairment charges) decreased by £2.1m to £42.8m (2019: £44.9m), due to deferral of discretionary spend, in response to the pandemic, and reductions in other expenditure, partially offset by increased marketing costs to support the investment in Consumer Health brands. This resulted in operating costs, as a percentage of see-through sales, to be maintained in line with the prior year, at 31.1% (2019: 31.1%).

The IFRS2 share options charge for 2020 was £1.4m, down £0.4m versus that for the previous year (2019: £1.8m).

As a result of the reduction in operating costs, the impact on underlying earnings before interest, taxes, depreciation, and amortisation (EBITDA) was much smaller, with underlying EBITDA decreasing just 2% to £38.6m (2019: £39.4m), and underlying operating profit decreasing by a similar amount to £36.8m (2019: £37.4m). Reported operating profit decreased 54% to £16.3m (2019: £35.6m).

Underlying depreciation, amortisation, and underlying impairment charges

Underlying depreciation, amortisation, and impairment charges for 2020 were £1.8m, down £0.2m on the prior year (2019: £2.0m). Following changes in the accounting policy regarding classification of non-underlying items announced in the first half of 2020, as set out below, for 2020 this charge relates purely to depreciation.

Finance costs

Finance costs were down by £1.3m compared with the previous year, at £3.3m (2019: £4.6m). Of this, £1.2m related to a reduction in borrowing costs, reflecting both a lower level of borrowings and a reduction in the interest rate charged on our borrowings. The remaining £0.1m related to currency movements.

The average interest charge on gross debt during the period (including non-utilisation fees) was 2.55% (2019: 3.37%).

Change in accounting estimate

As set out in the Half Year Report, as the Group continues its focus on its growing Consumer Healthcare portfolio, the Directors have considered the continuing appropriateness of using the indefinite useful lives accounting concept across the entire intangible brand asset portfolio.

For the majority of Consumer Healthcare brand assets, having regard to the expected long-term growth profile of the Consumer Healthcare business and the enduring nature of the brands, which are supported by ongoing marketing spend, the Directors have concluded that indefinite useful lives remain appropriate.

However, for Prescription Medicine brand assets, the Directors have decided to adopt finite useful lives of up to 20 years for all these assets effective from 1 January 2020. In arriving at this lifespan, the Directors took account of all relevant factors, including typical pharmaceutical product life cycles and the potential development of alternative treatments over time, and also the policies adopted by our peer group.

As a result of this change in estimated useful lives, the carrying value of the Prescription Medicine and certain other brand assets will be amortised to the profit and loss account over their useful lives, generating an annual non-cash amortisation charge of £7.2m in 2020 and for subsequent years.

Non-cash impairment charges

The Group has also conducted impairment reviews for all intangible brand assets. These reviews, together with the change in useful life assumption for Prescription Medicine assets, have resulted in some non-cash impairments, as detailed in note 4.

Classification of non-underlying items

The Group has also updated its classification policy for non-underlying items. Following this update all non-cash amortisation and impairment charges will be included as non-underlying items for 2020 and subsequent years, in line with the general market treatment. This change has been made to enable users to better understand the financial performance and position of the Group from one period to the next, and to facilitate comparison with its peer group, the majority of whom also exclude amortisation and impairment from their underlying results.

Reconciliation of underlying to reported profit before tax

Year ended 31 December	**2020 £m**	**2019 £m**
Underlying profit before taxation	**33.5**	**32.9**
Non-underlying items:		
Amortisation of intangible assets	(7.2)	-
Impairment of intangible assets and goodwill	(12.1)	-
Acquisition costs – Biogix Inc.	(1.3)	-
Return of Xonvea licensing rights	-	(1.7)
Disposal of Flammacerium	-	(0.1)
Total	(20.5)	(1.8)
Reported profit before taxation	**13.0**	**31.1**

Taxation

The underlying total tax charge for 2020 was £6.4m (2019: £6.4m), which equates to an effective tax rate of 19.0% (2019: 19.5%). The total tax charge for the year was £5.0m (2019: £6.1m), equating to an effective tax rate on reported profits of 38.3% (2019: 19.5%). The tax credit on non-underlying items reflects the net effect of the tax credit on amortisation and impairment items, of £3.2m, partially offset by a charge of £1.8m due to the impact of the change in the UK tax rate from 17% to 19% on deferred tax balances, which relate primarily to intangible assets.

Earnings per share

Underlying basic earnings per share, the measure used by the Board in assessing earnings performance, was up on the previous year at 5.21p (2019: 5.09p), reflecting the small increase in the Group's underlying profit after tax, coupled with a modest increase in the number of shares in issue.

Reported basic earnings per share reduced by 68% to 1.54p (2019: 4.80p) due to the greater impact which non-underlying items had on reported earnings in 2020 versus 2019.

Dividend

The Board is pleased to announce that, after cancelling the 2019 final dividend owing to COVID-19 and then paying an interim dividend payment for 2020, in line with that for 2019, it is proposing a final dividend payment of 1.074p per share for 2020, taking the total dividend payment for the year to 1.610p.

The Board will continue to assess the level of future cash distributions having regard to overall business performance and future outlook.

The final dividend, subject to approval at the Company's AGM on 19 May 2021, will be paid on 8 July 2021 to shareholders on the register on 11 June 2021.

Balance sheet

Intangible assets increased by £84.2m in 2020, to £412.9m (2019: £328.7m), due mainly to the addition of acquired intangibles from the Biogix acquisition of £105.4m, partially offset by non-underlying impairments of £12.1m and amortisation charges of £7.2m as announced at half year

Further detail is provided in note 9.

Working capital

The Group continued to maintain good control of its working capital during 2020, despite the challenges of the pandemic, with total net working capital at 31 December 2020 of £19.3m, a reduction of £5.4m on that at the start of the period (31 December 2019: £24.7m) due mainly to the movement in receivables and payables balances.

Inventories, net of provisions, amounted to £22.9m as at 31 December 2020, an increase of £7.4m versus the start of the year (31 December 2019: £15.5m) and £2.2m of this reflects inventory acquired as part of the Biogix acquisition; the remainder reflects the purchase of additional finished goods inventory, raw materials and componentry, to mitigate against both future manufacturing and supply challenges as a consequence of COVID-19 and any potential disruption to our supply chain in the wake of the UK's departure from the EU.

Receivables decreased by £5.9m, reflecting both the decline in revenues and the timing of fourth quarter sales, whilst payables increased by £6.9m, as a result of higher inventory holdings and the phasing of payments around the year end.

Cash flow and net debt

Free cash flow (see note 20 for definition) for the year remained very strong at £34.1m (2019: £29.1m), with second half cash flows being significantly stronger than first half, bolstered by favourable movements in net working capital. Cash generated from operations was £46.4m (2019: £39.0m).

Following the drawdown of US$110.0m from our existing £165 million Revolving Credit Facility to fund the acquisition of Biogix Inc, announced on 29 December 2020, net debt was £109.4m at 31 December 2020 (31 December 2019: £59.2m).

As a result of this acquisition, Group leverage[2] increased to 2.43 times at 31 December 2020 (31 December 2019: 1.48 times), still comfortably within our covenant limit of 3.0 times.

We expect free cash flow generation to remain good in 2021, albeit constrained in the first half due to the reversal of the favourable working capital movements seen in Q4 2020. In the absence of further acquisitions, we expect leverage to decrease to below 2.0 times by the end of the year.

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. Borrowings are denominated in Sterling, Euro and US Dollars.

Group risk management policy is to hedge up to 75% of estimated future foreign currency EBITDA exposure, for up to 18 months at any point in time. The Group uses forward foreign exchange contracts to implement this policy which are generally designated as cash flow hedges.

In June 2020, the Group exercised its option to secure a 12-month extension to its £165m Revolving Credit Facility, on the same terms, and this now runs through to July 2024. This facility provides flexibility for the Group to pursue its acquisition strategy over the next few years, to complement future organic growth.

Following the Biogix acquisition on 29 December 2020, £25m of this facility remained unutilised at 31 December 2020.

Andrew Franklin

Chief Financial Officer

23 March 2021

CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 December 2020			Year ended 31 December 2019		
		Underlying £000s	Non-Underlying £000s (Note 4)	Total £000s	Underlying £000s	Non-Underlying £000s (Note 4)	Total £000s
Revenue	2, 20	**129,801**	**–**	**129,801**	135,637	–	135,637
Cost of sales		**(46,985)**	**–**	**(46,985)**	(49,561)	–	(49,561)
Gross profit		**82,816**	**–**	**82,816**	86,076	–	86,076
Operating expenses							
Administration and marketing expenses	4	**(44,614)**	**(1,300)**	**(45,914)**	(46,351)	–	(46,351)
Amortisation of intangible assets	4	**–**	**(7,155)**	**(7,155)**	(179)	–	(179)
Impairment of goodwill and intangible assets	4	**–**	**(12,057)**	**(12,057)**	(284)	–	(284)
Share-based employee remuneration		**(1,374)**	**–**	**(1,374)**	(1,816)	–	(1,816)
Return of Xonvea Licensing Rights	4	**–**	**–**	**–**	**–**	(1,672)	(1,672)
Disposal of Flammacerium	4	**–**	**–**	**–**	–	(145)	(145)
Operating profit		**36,828**	**(20,512)**	**16,316**	37,446	(1,817)	35,629
Finance costs							
Interest payable and similar charges	5	**(2,657)**	**–**	**(2,657)**	(3,777)	–	(3,777)
Finance costs	5	**(643)**	**–**	**(643)**	(776)	–	(776)
		(3,300)	**–**	**(3,300)**	(4,553)	–	(4,553)
Profit before taxation	3	**33,528**	**(20,512)**	**13,016**	32,893	(1,817)	31,076
Taxation	6	**(6,372)**	**1,383**	**(4,989)**	(6,414)	348	(6,066)
Profit for the period attributable to equity shareholders		**27,156**	**(19,129)**	**8,027**	26,479	(1,469)	25,010
Earnings per share							
Basic (pence)	8	**5.21**		**1.54**	5.09		4.80
Diluted (pence)	8	**5.14**		**1.52**	4.99		4.72

All of the activities of the Group are classed as continuing.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December 2020 £000s	Year ended 31 December 2019 £000s
Profit for the year	**8,027**	25,010
Other comprehensive income		
Items that may be reclassified to profit or loss		
Foreign exchange translation differences (net of deferred tax)	**(1,051)**	(1,495)
Forward exchange forward contracts – cash flow hedge (net of deferred tax)	**(250)**	489
Interest rate swaps – cash flow hedge (net of deferred tax)	**27**	(23)
Total comprehensive income for the year	**6,753**	23,981

CONSOLIDATED BALANCE SHEET

	Note	31 December 2020 £000s	31 December 2019 £000s
Assets			
Non-current assets			
Goodwill and intangible assets	**9**	**412,872**	328,660
Property, plant and equipment		**15,921**	11,554
Deferred tax	**15**	**2,139**	1,710
Other non-current assets		**682**	676
		431,614	342,600
Current assets			
Inventories	**10**	**22,917**	15,518
Trade and other receivables	**11**	**25,114**	30,992
Derivative financial instruments		**310**	697
Cash and cash equivalents		**28,898**	17,830
		77,239	65,037
Total assets		**508,853**	407,637
Equity			
Ordinary share capital	**16**	**5,329**	5,294
Share premium account		**150,645**	149,036
Share option reserve		**8,426**	7,208
Other reserve		**(329)**	(329)
Cash flow hedging reserve		**239**	462
Translation reserve		**(1,055)**	(4)
Retained earnings		**117,703**	112,513
Total equity		**280,958**	274,180
Liabilities			
Non-current liabilities			
Loans and borrowings	**13**	**138,328**	77,040
Other liabilities	**14**	**3,200**	2,401
Deferred tax liability	**15**	**56,181**	29,810
		197,709	109,251
Current liabilities			
Corporation tax		**1,435**	2,344
Trade and other payables	**12**	**28,736**	21,815
Derivative financial instruments		**15**	47
		30,186	24,206
Total liabilities		**227,895**	133,457
Total equity and liabilities		**508,853**	407,637

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Ordinary share capital £000s	Share premium account £000s	Other reserve £000s	Cash flow hedging reserve £000s	Translation reserve £000s	Share option reserve £000s	Retained earnings £000s	Total equity £000s
Balance 1 January 2019	5,182	144,639	(329)	(4)	1,491	6,121	95,099	252,199
Issue of shares	112	4,397	–	–	–	–	–	4,509
Dividend paid	–	–	–	–	–	–	(7,596)	(7,596)
Share options charge (including deferred tax)	–	–	–	–	–	1,087	–	1,087
Transactions with owners	112	4,397	–	–	–	1,087	(7,596)	(2,000)
Profit for the year	–	–	–	–	–	–	25,010	25,010
Other comprehensive income								
Foreign exchange forward contracts – cash flow hedge (net of deferred tax)	–	–	–	489	–	–	–	489
Interest rate swaps – cash flow hedge (net of deferred tax)	–	–	–	(23)	–	–	–	(23)
Foreign exchange translation differences (net of deferred tax)	–	–	–	–	(1,495)	–	–	(1,495)
Total comprehensive income for the year	–	–	–	466	(1,495)	–	25,010	23,981
Balance 31 December 2019	5,294	149,036	(329)	462	(4)	7,208	112,513	274,180

	Ordinary share capital £000s	Share premium account £000s	Other reserve £000s	Cash flow hedging reserve £000s	Translation reserve £000s	Share option reserve £000s	Retained earnings £000s	Total equity £000s
Balance 1 January 2020	**5,294**	**149,036**	**(329)**	**462**	**(4)**	**7,208**	**112,513**	**274,180**
Issue of shares	**35**	**1,609**	**–**	**–**	**–**	**–**	**–**	**1,644**
Dividend paid	**–**	**–**	**–**	**–**	**–**	**–**	**(2,837)**	**(2,837)**
Share options charge (including deferred tax)	**–**	**–**	**–**	**–**	**–**	**1,218**	**–**	**1,218**
Transactions with owners	**35**	**1,609**	**–**	**–**	**–**	**1,218**	**(2,837)**	**25**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**8,027**	**8,027**
Other comprehensive income								
Foreign exchange forward contracts – cash flow hedge (net of deferred tax)	**–**	**–**	**–**	**(250)**	**–**	**–**	**–**	**(250)**
Interest rate swaps – cash flow hedge (net of deferred tax)	**–**	**–**	**–**	**27**	**–**	**–**	**–**	**27**
Foreign exchange translation differences (net of deferred tax)	**–**	**–**	**–**	**–**	**(1,051)**	**–**	**–**	**(1,051)**
Total comprehensive income for the year	**–**	**–**	**–**	**(223)**	**(1,055)**	**–**	**8,027**	**6,753**
Balance 31 December 2020	**5,329**	**150,645**	**(329)**	**239**	**(1,055)**	**8,426**	**117,703**	**280,958**

CONSOLIDATED CASH FLOW STATEMENT

	Note	Year ended 31 December 2020 £000s	Year ended 31 December 2019 £000s
Cash flows from operating activities			
Cash generated from operations	**17**	**46,405**	38,958
Tax paid		**(4,838)**	(3,200)
Cash flows from operating activities		**41,567**	35,758
Investing activities			
Interest received		**10**	23
Acquisition of Biogix Inc	**19**	**(82,667)**	–
Development expenditure		–	(12)
Purchase of property, plant and equipment		**(4,612)**	(4,145)
Proceeds from disposal of Joint Venture Investment		–	500
Proceeds from disposal of intangibles		**1,405**	350
Net cash used in investing activities		**(85,864)**	(3,284)
Financing activities			
Interest paid and similar charges		**(2,866)**	(2,505)
Loan issue costs		**(362)**	(1,401)
Capital lease payments		**(884)**	(726)
Proceeds from exercise of share options		**1,644**	4,509
Dividend paid		**(2,837)**	(7,596)
Proceeds from borrowings		**82,595**	1,054
Repayment of borrowings		**(21,541)**	(18,533)
Net cash provided by/(used in) financing activities		**55,749**	(25,198)
Net movement in cash and cash equivalents		**11,452**	7,276
Cash and cash equivalents at 1 January		**17,830**	10,893
Exchange losses on cash and cash equivalents		**(384)**	(339)
Cash and cash equivalents at 31 December		**28,898**	17,830

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2020

1. General information

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, registered, incorporated and domiciled in England and Wales in the UK. The address of its registered office is Avonbridge House, Bath Road, Chippenham, Wiltshire, SN15 2BB. The Company is listed on the AIM stock exchange.

The financial information set out in the announcement does not constitute the Group's statutory accounts for the year ended 31 December 2020 or 31 December 2019. The auditors reported on those accounts and 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 2020 have not yet been delivered to the Registrar of Companies.

2. Revenue and segmental information

The Group's reportable segments are the strategic business units that represent different parts of the overall product portfolio. These being Consumer Healthcare brands and Prescription Medicines. The business units are managed separately as each portfolio requires different expertise to deliver the corresponding product offering. The segmental presentation reflects the decision in the year to reclassify the portfolio, in recognition of the inherently different characteristics of these product types. Previously the business has been reported as a single segment.

Operating segments are disclosed in a manner consistent with the internal reporting provided to the CODM during the reporting year. The Group's Board of Directors ('the Board') is the Group's CODM. The Group evaluates performance of the operational segments on the basis of revenue and gross profit. Other than intangible assets, disclosed in note 9, assets and liabilities are reported to the Board at Group level and are not separated segmentally.

Revenue information By Brand	Year ended 31 December 2020 £000s	Year ended 31 December 2019 £000s
Consumer Healthcare brands:		
Kelo-cote	**34,748**	31,039
Nizoral *	**13,260**	11,528
MacuShield	**6,751**	8,236
Vamousse	**5,626**	6,538
Aloclair	**7,601**	8,057
Ashton & Parsons	**3,408**	2,676
Oxyplastine	**3,140**	3,458
Other consumer healthcare brands	**10,806**	12,192
Total revenue – Consumer healthcare brands	**85,340**	83,724
Prescription Medicines:		
Hydromol	**6,304**	6,732
Flamma Franchise	**5,897**	7,647
Forceval	**4,893**	4,409
Optiflo	**3,056**	2,921
Ametop	**1,465**	2,272
Other prescription medicines	**22,846**	27,932
Total revenue – Prescription medicines	**44,461**	51,913
Total Revenue	**129,801**	135,637

* Nizoral is shown on an agency basis in statutory revenue. Nizoral revenue presented on a see-through income statement basis is included as an alternative performance measure in note 20.

Revenue information by Geography

Classification by geography is based on customer location.

Revenue information By Geography	Year ended 31 December 2020 £000s	Year ended 31 December 2019 £000s
Europe, Middle East and Africa (EMEA)	**93,769**	97,347
Asia Pacific and China (APAC)	**29,309**	29,558
Americas (AMER)	**6,723**	8,732
Total Revenue	**129,801**	135,637

Operating Segment Results

	Year ended 31 December 2020		
	Consumer Healthcare £000s	Prescription Medicines £000s	Total £'000s
Revenue	**85,340**	**44,461**	**129,801**
Cost of Sales	**(26,199)**	**(20,786)**	**(46,985)**
Gross Profit	**59,141**	**23,675**	**82,816**

	Year ended 31 December 2019		
	Consumer Healthcare £000s	Prescription Medicines £000s	Total £'000s
Revenue	83,724	51,913	135,637
Cost of Sales	(25,228)	(24,333)	(49,561)
Gross Profit	58,496	27,580	86,076

Major customers

The revenues from the Group's largest customers are as follows. Two customers separately comprised 10% or more of revenue (2019: one).

Major customer 1 is a multi-national organisation with sales in both EMEA and AMER regions.

	Year ended 31 December 2020 £000s	Year ended 31 December 2019 £000s
Major customer 1 (Consumer healthcare and Prescription medicine sales in EMEA and AMER)	**17,345**	24,036
Major customer 2 (Consumer healthcare sales in EMEA)	**16,474**	2,595

3. Profit before taxation

Profit before taxation is stated after charging:	Year ended 31 December 2020 £000	Year ended 31 December 2019 £000
Amounts receivable by the Company's auditor and its associates in respect of		
– The audit of these financial statements	**48**	40
– The audit of the financial statements of subsidiaries	**198**	161
– Other assurance services	**5**	5
Amortisation of intangible assets	**7,155**	179
Impairment of intangible assets	**12,057**	284
Losses on disposals	**308**	1,817
Share options charge	**1,374**	1,816
Depreciation of plant, property and equipment	**1,753**	1,496
Loss on foreign exchange transactions	**653**	799

4. Non-underlying items

The Group presents a number of non-IFRS measures which exclude the impact of significant non-underlying items. This is to allow investors to understand the underlying trading performance of the Group and can exclude items such as: amortisation and impairment of intangibles; gains or losses on disposal; remeasurement and accounting for the passage of time in respect of contingent considerations; and the revaluation of deferred tax balances following substantial tax legislation changes. This assessment requires judgement to be applied by the Directors as to which transactions are non-underlying and whether this classification enhances the understanding of the users of the financial statements.

	Year ended 31 December 2020 £000s	Year ended 31 December 2019 £000s
Amortisation of intangible assets	**(7,155)**	–
Impairment of goodwill and intangible assets	**(12,057)**	–
Biogix acquisition costs	**(1,300)**	–
Return of Xonvea licensing rights	**–**	(1,672)
Disposal of Flammacerium	**–**	(145)
Total non-underlying items before taxation	**(20,512)**	(1,817)
Taxation on non-underlying items	**3,194**	348
Impact of UK tax rate change from 17% to 19%	**(1,811)**	–
Total non-underlying items after taxation	**(19,129)**	(1,469)

Amortisation of intangible assets

As disclosed in note 9, finite useful lives of up to 20 years have been adopted prospectively from 1 January 2020 for Prescription Medicine and certain other brand assets. This generates an annual amortisation charge of £7.2m. The amortisation charges are a significant item considered unrelated to 2020 trading performance, and as such have been presented as non-underlying. This classification is in line with the majority of peer companies of the Group.

Impairment of goodwill and intangible assets

The Group conducted impairment reviews for all intangible assets as part of its interim reporting to 30 June 2020. These reviews, together with the change in useful life assumption for Prescription Medicine assets, resulted in impairment losses as the carrying value of certain cash-generating units exceeded estimated recoverable amounts. Further details are provided in note 9. The impairment losses are significant items resulting from changes in assumptions for future recoverable amounts. As such they are considered unrelated to 2020 trading performance and have been presented as non-underlying.

Biogix acquisition costs

Legal and professional fees related to the purchase of Biogix Inc (note 19) were £1.3m. These acquisition costs are a significant item considered unrelated to 2020 trading performance, and as such have been presented as non-underlying.

Return of Xonvea Licensing Rights

In November 2019, the Group reached an agreement with Duchesnay Inc. of Canada ('Duchesnay') to return the UK and EU licensing rights to Xonvea, a prescription medicine for the treatment of nausea and vomiting of pregnancy where conservative management has failed. The total non-underlying loss on disposal was £1.7m. The disposal is a significant item considered unrelated to 2019 trading performance, and as such has been presented as non-underlying.

Disposal of Flammacerium

In December 2019, the Group sold the global rights to the brand Flammacerium for gross cash consideration of £0.75m payable over six years. The total non-underlying loss on disposal was £0.1m. The disposal is a significant item considered unrelated to 2019 trading performance, and as such has been presented as non-underlying.

Impact of UK tax rate change from 17% to 19%

A change to the UK corporation tax rate was announced in the Chancellor's Budget on 16 March 2016, reducing the main rate from 19% to 17% from 1 April 2020. This commitment was abandoned in the Budget on 11 March 2020. As this change was substantively enacted on 17 March 2020, the effect is included in these financial statements. The change in tax rate is a significant item that relates only to deferred tax, principally on intangibles, and is unrelated to 2020 trading performance. As such the rate change impact has been presented as non-underlying.

5. Finance costs

	Year ended 31 December 2020 £000s	Year ended 31 December 2019 £000s
Interest payable and similar charges		
On loans and overdrafts	**(1,988)**	(3,191)
Amortised finance issue costs	**(581)**	(491)
Interest on lease liabilities	**(88)**	(95)
	(2,657)	(3,777)
Finance income		
Interest income	**10**	23
Net exchange losses	**(653)**	(799)
	(643)	(776)
Finance costs – net	**(3,300)**	(4,553)

6. Taxation

Analysis of the charge for the period is as follows:

	Year ended 31 December 2020 £000s	Year ended 31 December 2019 £000s
Corporation tax		
In respect of current period	**4,417**	4,373
Adjustment in respect of prior periods	**(123)**	(227)
	4,294	4,146
Deferred tax (see note 15)		
Origination and reversal of temporary differences	**705**	1,804
Adjustment in respect of prior periods	**(10)**	116
Taxation	**4,989**	6,066

The difference between the total tax charge shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	Year ended 31 December 2020 £000s	Year ended 31 December 2019 £000s
Profit before taxation	**13,016**	31,076
Profit before taxation multiplied by standard rate of corporation tax in the United Kingdom of 19.00% (2019: 19.00%)	**2,473**	5,904
Effect of:		
Non-deductible expenses	**614**	166
Non-taxable income	**(18)**	–
Adjustment in respect of prior periods	**(132)**	(111)
Differences between current and deferred tax rates	**1,811**	(226)
Differing tax rates on overseas earnings	**40**	277
Share options	**(7)**	(241)
Movement in other tax provisions	**208**	297
Total taxation	**4,989**	6,066

The taxation charge for the year includes the impact on deferred tax of the increase in the main rate of UK tax from 17% to 19%, following the abandonment of the proposed reduction to 17% in the Budget on 11 March 2020.

A further change to UK corporation tax was announced in the Budget on 3 March 2021, increasing the main rate of UK corporation tax from 19% to 25% with effect from 1 April 2023. As this change was not substantively enacted at the balance sheet date, the effect is not included in these financial statements and UK timing differences have continued to be recognised at 19% for deferred tax purposes. The overall effect of this change in policy, if it had applied to the deferred tax balance at the balance sheet date, would be to increase the overall net deferred tax liability by £4.7m. The income tax expense for the period would have increased by £5.1m, with a credit of £0.2m to the revaluation reserve, and a £0.2m credit to other comprehensive income.

The Group has calculated 'adjusted underlying effective tax rate' as an alternative performance measure in note 20.

7. Dividends

An interim dividend of 0.536p per share for the 2020 financial year was paid on 7 January 2021.

	Year ended 31 December 2020	
	Pence / share	**£'000s**
Amounts recognised as distributions to owners in 2020		
Interim dividend for the 2019 financial year	**0.536**	**2,837**

The interim dividend for 2019 was paid on 10 January 2020.

	Year ended 31 December 2019	
	Pence / share	**£'000s**
Amounts recognised as distributions to owners in 2019		
Interim dividend for the 2018 financial year	0.487	2,524
Final dividend for the 2018 financial year	0.977	5,072
		7,596

The interim dividend for 2018 was paid on 10 January 2019. The final dividend for 2018 was paid on 11 July 2019.

8. Earnings per share (EPS)

Basic EPS is calculated by dividing the earnings attributable to Ordinary shareholders by the weighted average number of Ordinary shares in issue 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. There are no differences in earnings used to calculate each measure as a result of the dilutive employee share options.

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

	Year ended 31 December 2020	**Year ended 31 December 2019**
Basic EPS calculation	**521,686,254**	520,687,101
Employee share options	**6,256,040**	9,471,693
Diluted EPS calculation	**527,924,294**	530,158,794

The underlying basic EPS is intended to demonstrate recurring elements of the results of the Group before non-underlying items. A reconciliation of the earnings used in the different measures is given below:

	Year ended 31 December 2020 £000s	**Year ended 31 December 2019 £000s**
Earnings for basic EPS	**8,027**	25,010
Non-underlying items (note 4)	**19,129**	1,469
Earnings for underlying basic EPS	**27,156**	26,479

The resulting EPS measures are:

	Year ended 31 December 2020 Pence	Year ended 31 December 2019 Pence
Basic EPS	**1.54**	4.80
Diluted EPS	**1.52**	4.72
Underlying basic EPS	**5.21**	5.09
Underlying diluted EPS	**5.14**	4.99

9. Goodwill and intangible assets

	Goodwill £000s	Consumer healthcare brands and distribution rights £000s	Prescription medicines brands and distribution rights £'000s	Development costs £000s	Assets under development £000s	Total £000s
Cost						
At 1 January 2020	**16,532**	**171,102**	**152,439**	**–**	**–**	**340,073**
Acquisition (note 19)	**15,427**	**89,990**	**–**	**–**	**–**	**105,417**
Disposals	**–**	**–**	**(714)**	**–**	**–**	**(714)**
Exchange adjustments	**445**	**(2,889)**	**1,165**	**–**	**–**	**(1,279)**
At 31 December 2020	**32,404**	**258,203**	**152,890**	**–**	**–**	**443,497**
Amortisation and impairment						
At 1 January 2020	**–**	**4,226**	**7,187**	**–**	**–**	**11,413**
Non-underlying impairment for the year	**1,144**	**2,007**	**8,906**	**–**	**–**	**12,057**
Non-underlying amortisation for the year	**–**	**226**	**6,929**	**–**	**–**	**7,155**
At 31 December 2020	**1,144**	**6,459**	**23,022**	**–**	**–**	**30,625**
Net book amount						
At 31 December 2020	**31,260**	**251,744**	**129,868**	**–**	**–**	**412,872**
At 1 January 2020	16,532	166,876	145,252	–	–	328,660

	Goodwill £000s	Consumer healthcare brands and distribution rights £000s	Prescription medicines brands and distribution rights £'000s	Development costs £000s	Assets under development £000s	Total £000s
Cost						
At 1 January 2019	16,565	172,781	155,311	768	1,000	346,425
Additions	–	–	–	12	–	12
Disposals	(33)	–	(1,500)	(780)	(1,000)	(3,313)
Exchange adjustments	–	(1,679)	(1,372)	–	–	(3,051)
At 31 December 2019	16,532	171,102	152,439	–	–	340,073
Amortisation and impairment						
At 1 January 2019	–	4,226	6,956	–	–	11,182
Underlying impairment for the year	–	–	284	–	–	284
Underlying amortisation for the year	–	–	179	–	–	179
Disposal	–	–	(232)	–	–	(232)
At 31 December 2019	–	4,226	7,187	–	–	11,413
Net book amount						
At 31 December 2019	16,532	166,876	145,252	–	–	328,660
At 1 January 2019	16,565	168,555	148,355	768	1,000	335,243

Goodwill and brands and distribution rights are subject to an impairment review at least annually.

Recent acquisitions

On 29 December 2020 the Group completed the acquisition of 100% of the share capital of Biogix Inc, a privately held, US-based consumer healthcare company. The acquisition brings into the Group a highly successful and fast-growing brand, Amberen, with significant near-term growth potential. As part of this acquisition an intangible brand asset with fair value of $121.0m (£90.0m) for the product Amberen, and goodwill of $20.8m (£15.4m) have been recognised (note 19).

Key judgement – useful economic lives

As a result of the 2020 strategic review, the Group has segregated its portfolio of assets into two areas; Consumer Healthcare brands and Prescription Medicines. Following this determination, the Directors considered the continuing appropriateness of indefinite useful lives which have previously been adopted across the intangible brand asset portfolio. This in the context of the focus on growing Consumer Healthcare brands, their increasing dominance of the portfolio and the planned rollout of Digital Excellence programmes. Prescription Medicines have been considered in the context of more limited requirement for promotional investment, and potential exposure to other market factors detailed further below.

For the majority of Consumer Healthcare brand assets, indefinite useful lives have been judged to remain appropriate. This due to the expected long-term growth profile of the Consumer Healthcare business and the enduring nature of the brands, which are supported by continuing marketing spend.

For Prescription Medicine brand assets, finite useful lives of up to 20 years have been adopted prospectively from 1 January 2020. The determination of this lifespan takes into account all relevant factors for each individual asset, including typical pharmaceutical asset life cycles and the potential development of alternative treatments over time.

Certain brands were acquired with patent protection, which lasts for a finite period of time. It is the opinion of the Directors that these patents do not provide any incremental value to the value of the brand and therefore no separate value has been placed on these patents. This assessment is based on a view of future profitability after patent expiry and past experience with similar brands.

It is the opinion of the Directors that the indefinite life assets meet the criteria set out in IAS 38. This assessment is made on an asset-by-asset basis taking into account:

- how long the brand has been established in the market and subsequent resilience to economic and social changes;
- stability of the industry in which the brand is used;
- potential obsolescence or erosion of sales;
- barriers to entry;
- whether sufficient marketing promotional resourcing is available; and
- dependency on other assets with defined useful economic lives.

The Prescription Medicine brand assets have a weighted average remaining life of 19 years at 31 December 2020.

An increase in the finite useful lives adopted of 2 years would have reduced the annual amortisation charge by £0.6m. A reduction of 2 years would have increased the annual amortisation charge by £0.8m.

The net book value of intangible assets and goodwill which are considered to have indefinite useful lives are allocated to CGUs in the following table. Goodwill relating to the acquisition of certain assets and businesses from Sinclair IS Pharma plc is allocated to the group of related Consumer Healthcare and Prescription Medicine product CGUs. Other Goodwill amounts are allocated to the product CGU with which they were originally acquired. Intangible assets that are considered to have indefinite lives all relate to the Consumer healthcare segment, except for Sinclair Prescription Medicine Goodwill.

	31 December 2020		
	Goodwill £000s	Consumer healthcare brands and distribution rights £000s	Total £000s
Amberen	15,140	88,321	103,461
Nizoral	–	60,307	60,307
Vamousse	–	11,596	11,596
MacuShield	–	8,740	8,740
Anbesol & Ashton and Parsons	–	2,550	2,550
Nutraceutical products	–	1,715	1,715
Quinoderm	–	1,500	1,500
Products acquired from Sinclair			
Kelo-cote (non EU, excluding US)	–	40,245	40,245
Kelo-cote (EU)	–	17,800	17,800
Aloclair	–	14,000	14,000
Atopiclair	–	2,300	2,300
Goodwill – Sinclair Prescription Medicine	1,105	–	1,105
Goodwill – Sinclair Consumer	10,819	–	10,819
	27,064	**249,074**	**276,138**

The difference in Amberen values in the table compared to note 19 are the result of foreign exchange retranslation of these US Dollar denominated assets.

Impairment

All intangible assets are stated at the lower of cost less accumulated amortisation and impairment or the recoverable amount.

Assets are tested for impairment at least annually, or more frequently if there are indicators that amounts might be impaired. These assets are tested at CGU level (or at group of CGUs level in the case of goodwill relating to the acquisition of certain assets and businesses) as the Directors believe these CGUs generate largely independent cash inflows.

The impairment test involves determining the recoverable amount of the relevant cash-generating unit, which corresponds to the higher of the fair value less costs to sell or its value in use.

The value in use calculation uses cash flow projections based on financial forecasts for up to the next five years extrapolated to perpetuity. Financial forecasts for the following year are based on the approved annual budget. Financial forecasts for years two to five are based on the approved long-range plan. Margins are based on past experience and cost estimates.

The Group conducted impairment reviews for all intangible assets as part of its interim reporting to 30 June 2020. These reviews, together with the change in useful life assumption for Prescription Medicine assets, resulted in impairment losses as the carrying value of certain cash generating units exceeded estimated recoverable amounts. Recoverable amounts are the greater of value in use and fair value less costs to sell over the assets' useful lives.

The key assets impacted were:

- Haemopressin and Optiflo intangible asset impaired by £5.3m (£0.7m due to market factors and £4.6m due to the change in accounting estimate).
- Nu-seals intangible asset impaired by £3.6m (£2.9m due to market factors and £0.7m due to the change in accounting estimate).
- Other intangible assets were impaired by £2.1m (£1.8m due to market factors and £0.3m due to the change in accounting estimate).
- Goodwill was impaired by £1.1m (£1.1m due to market factors).

The impairments due to market factors were a result of changes in the long-term sales, cost and margin expectations in the Group's latest financial forecast.

The Group has completed an additional impairment review at 31 December 2020 for all intangible assets. No further impairments were identified in this review.

Key source of estimation uncertainty – value in use assumptions

For the year end impairment review, key assumptions on which cash flow projections depend are as follows (including our assessment of the estimation uncertainty arising):

Discount rates

- Methodology: Cash flows are discounted at an appropriate rate, based on the Group's post-tax Weighted Average Cost of Capital (WACC) adjusted where appropriate for country specific risks, of between 6.7%–11.0%, or pre-tax 8.4%–13.8% (2019: 7.7%–12.0%, or pre-tax 9.6%–15.0%). The Group's WACC has reduced in the year due to updates in assumptions for the risk-free rate, the small stock premium and the equity beta. The risk-free rate has reduced due to changes in government bond yields, the small stock premium has reduced to recognise the Group's growth in market capitalisation and the equity beta has reduced based on sector market data. These factors were partially offset by the inclusion of a risk premium to recognise the impact of Covid-19.
- Estimation uncertainty: The assumptions included in the compilation of the CGU specific discount rates are designed to approximate the discount rate that a potential market participant would adopt. Given the nature of the Group's business model, the discount rate necessarily includes estimation uncertainty.

Forecast cash-flows

- Methodology: Approved budgets and forecasts for up to five years, based on management's best estimate of cash flows by individual CGU. These forecasts are then uplifted to perpetuity using growth rates between -3.0% to 2.0% (2019: -2.8% to 2.0%) based on the Group's long-term projections.
- Estimation uncertainty: The growth rates assumed in the Group's budgets and forecasts inherently include estimation uncertainty relating to the achievement of commercial initiatives and external factors such as competition.

Sensitivity Analysis

The Group has conducted sensitivity analysis on the impairment tests. The valuations generally indicate sufficient headroom, and the Group does not consider that any reasonably possible change in key assumptions could result in an impairment for the majority of intangible assets.

Management have identified that for certain CGUs with lower headroom, that a reasonably possible change in the two key assumptions could cause the carrying amount to exceed the recoverable amount. These assumptions are detailed as follows.

The cash flow projections included specific estimates for five years and a terminal growth rate thereafter. The terminal growth rates are determined based on management's estimate of the long-term prospects for each product.

				Value in use calculation assumptions		Individual assumptions required for the estimated recoverable amount to equal to the carrying value	
	Carrying amount £000s	Estimated recoverable amount £000s	Remaining UEL years	Pre-tax discount rate %	Terminal margin growth rate %	Pre-tax discount rate %	Terminal margin growth rate %
Haemopressin, Optiflo & Others	**18,711**	**18,946**	**19**	9.0	0.7	9.3	0.2
Nu-Seals	**5,222**	**5,458**	**19**	8.8	(2.0)	9.5	(3.5)

The following table shows the potential impact of reasonably possible changes to individual assumptions on the estimated recoverable amount of the CGUs.

	Decrease in CGU recoverable amount £000s	
	2.0% increase in pre-tax discount rate	2% reduction in terminal margin growth rate
Haemopressin, Optiflo & Others	**(2,091)**	**(1,151)**
Nu-Seals	**(583)**	**(350)**

10. Inventories

	31 December 2020 £000s	31 December 2019 £000s
Finished goods and materials	**25,916**	19,089
Inventory provision	**(2,999)**	(3,571)
	22,917	15,518

Inventory costs expensed through the income statement during the year were £39,636,000 (2019: £42,631,000). During the year £1,284,000 (2019: £2,673,000) was recognised as an expense relating to the write-down of inventories to net realisable value. The prior year expense included £1,152,000 related to the return of Xonvea licensing rights.

11. Trade and other receivables

	31 December 2020 £000s	31 December 2019 £000s
Trade receivables	**19,834**	23,987
Other receivables	**1,544**	2,522
Prepayments	**898**	703
Accrued income	**2,838**	3,780
	25,114	30,992

Accrued income represents amounts owed unconditionally to the Group which have not been invoiced at the year end. For these assets, only the passage of time is required before payment becomes due.

The ageing of trade receivables at 31 December is detailed below:

Trade and receivables, net estimated allowances for expected credit losses	31 December 2020 £000s	31 December 2019 £000s
Not past due – Accrued income	**2,838**	3,780
Not past due	**15,764**	19,640
1–30 days past due	**2,550**	3,253
31–60 days past due	**1,520**	278
61–90 days past due	–	320
Past 91 days	–	496
	22,672	27,767

Trade and receivables, gross of estimated allowances for expected credit losses	31 December 2020 £000s	31 December 2019 £000s
Not past due – Accrued income	**2,838**	3,780
Not past due	**15,764**	19,640
1–30 days past due	**2,550**	3,253
31–60 days past due	**1,606**	278
61–90 days past due	**31**	320
Past 91 days	**524**	1,495
	23,313	28,766

As at 31 December 2020, trade and other receivables of £641,000 (2019: £999,000) were past due and impaired.

To manage credit risk customers are required to pay in accordance with agreed terms. Our settlement terms are generally due within 30 or 60 days from the end of the month of sale.

12. Trade and other payables

	31 December 2020 £000s	31 December 2019 £000s
Trade payables	**11,275**	6,970
Other taxes and social security costs	**2,440**	3,247
Accruals	**13,639**	10,114
Other payables	**418**	459
Lease liabilities	**964**	1,025
	28,736	21,815

13. Loans and borrowings

The Group has a £165m fully Revolving Credit Facility ('RCF'), together with a £50m accordion facility, with a syndicate of lenders. This facility is available until July 2024, following utilisation of a one-year extension option from July 2023 in the year. The bank facility is secured by a fixed and floating charge over the Company's and Group's assets registered with Companies House.

Non-current	31 December 2020 £000s	31 December 2019 £000s
Bank loans:		
Secured	**139,920**	78,848
Finance issue costs	**(1,592)**	(1,808)
	138,328	77,040

Movement in loans and borrowings	31 December 2020 £000s	31 December 2019 £000s
At 1 January	**77,040**	96,702
Net receipts/(payments) from borrowing	**61,054**	(17,479)
Additional prepaid arrangement fees	**(362)**	(1,401)
Amortisation of prepaid arrangement fees	**578**	491
Exchange movements *	**18**	(1,273)
At 31 December	**138,328**	77,040

* Exchange movements on loans and borrowings are reported in other comprehensive income and accumulated in the translation reserve.

14. Other non-current liabilities

	31 December 2020 £000s	31 December 2019 £000s
Lease liabilities	**2,731**	1,997
Other non-current liabilities	**469**	404
	3,200	2,401

15. Deferred tax

	31 December 2020 £000s	31 December 2019 £000s
Accelerated capital allowances on tangible assets	**(917)**	(468)
Temporary differences: trading	**492**	234
Temporary differences: non-trading	**623**	662
Accelerated allowances on intangible assets	**(9,839)**	(10,081)
Initial recognition of intangible assets from business combination	**(45,369)**	(19,161)
Share based payments	**1,024**	806
Interest rate hedge	–	8
Foreign exchange forward contracts	**(56)**	(100)
	(54,042)	(28,100)
Recognised as:		
Deferred tax asset	**2,139**	1,710
Deferred tax liability	**(56,181)**	(29,810)

Reconciliation of deferred tax movements:

	1 January 2020 £000s	Recognised in other comprehensive income £000s	Recognised directly in equity £'000s	Recognised on acquisition £000s	Recognised in the income statement £000s	31 December 2020 £000s
Non-current assets						
Intangible assets	(29,242)	–	–	(25,491)	(475)	**(55,208)**
Property, plant and equipment	(468)	–	(42)	–	(407)	**(917)**
Non-current liabilities						
Derivative financial instruments	(92)	36	–	–	–	**(56)**
Other non-current liabilities	662	(39)	–	–	–	**623**
Equity						
Share option reserve	806	–	96	–	122	**1,024**
Temporary differences						
Trading	234	–	221	–	37	**492**
	(28,100)	(3)	275	(25,491)	(723)	**(54,042)**
Recognised as:						
Deferred tax asset	1,710					**2,139**
Deferred tax liability	(29,810)					**(56,181)**

	1 January 2019 £000s	Recognised in other comprehensive income £000s	Recognised directly in equity £'000s	Recognised in the income statement £000s	31 December 2019 £000s
Non-current assets					
Intangible assets	(28,491)	–	606	(1,357)	**(29,242)**
Property, plant and equipment	(172)	–	–	(296)	**(468)**
Non-current liabilities					
Derivative financial instruments	1	(93)	–	–	**(92)**
Other non-current liabilities	715	(53)	–	–	**662**
Equity					
Share option reserve	735	–	179	(108)	**806**
Temporary differences					
Trading	108	–	–	126	**234**
Losses	286	–	–	(286)	–

	(26,818)	(146)	785	(1,921)	**(28,100)**
Recognised as:					
Deferred tax asset	1,845				**1,710**
Deferred tax liability	(28,663)				**(29,810)**

The Group has no unrecognised deferred tax assets (2019: £nil).

16. Share capital

	Allotted, called up and fully paid	
	No. of shares	**£000s**
At 1 January 2019 – ordinary shares of 1p each	518,214,226	5,182
Issued during the year	11,188,393	112
At 31 December 2019 – ordinary shares of 1p each	529,402,619	5,294
Issued during the year	3,516,492	35
At 31 December 2020 – ordinary shares of 1p each	532,919,111	5,329

Between 1 January 2020 and 31 December 2020 3,516,492 shares were issued on the exercise of employee share options (2019: 11,188,393).

The holders of Ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Managing Capital

Our objective in managing the business's capital structure is to ensure that the Group has the financial capacity, liquidity and flexibility to support the existing business and to fund acquisition opportunities as they arise.

The capital structure of the Group consists of net bank debt and shareholders' equity. At 31 December 2020, net debt was £109.4m (2019: £59.2m), whilst shareholders' equity was £281.0m (2019: £274.2m).

The business is profitable and cash generative. The main financial covenant applying to bank debt are that leverage (the ratio of net bank debt to EBITDA) should not exceed 3.0 times. The Group complied with this covenant in 2020 and 2019.

Smaller acquisitions are typically financed using bank debt, while larger acquisitions typically involve a combination of bank debt and additional equity. The mixture of debt and equity is varied, taking into account the desire to maximise the shareholder returns while keeping leverage at comfortable levels.

17. Cash generated from operations

	Year ended 31 December 2020 £000s	**Year ended 31 December 2019 £000s**
Profit for the year	**8,027**	25,010
Taxation	**4,989**	6,066
Interest payable and similar charges	**2,657**	3,777
Interest income	**(10)**	(23)
Foreign exchange loss	**644**	799
Return of Xonvea licensing Rights	**–**	1,672
Loss on disposal of intangibles	**308**	145
Depreciation of property, plant and equipment	**1,753**	1,496
Amortisation and impairment of intangibles	**19,212**	463
Change in inventories	**(5,206)**	2,036
Change in trade and other receivables	**6,728**	(498)
Change in trade and other payables	**5,929**	(3,801)
Share based employee remuneration	**1,374**	1,816
Cash generated from operations	**46,405**	38,958

18. Contingent liabilities

Contingent liabilities are possible obligations that are not probable. The Group operates in a highly regulated sector and in markets and geographies around the world each with differing requirements. As a result, and in the normal course of business, the Group can be subject to a number of regulatory inspections/investigations on an ongoing basis. It is therefore possible that the Group may incur penalties for noncompliance. In addition, a number of the Group's brands and products are subject to pricing and other forms of legal or regulatory restrictions from both governmental/regulatory bodies and also from third parties. Assessments as to whether or not to recognise a provision in respect of these matters are judgemental as the matters are often complex and rely on estimates and assumptions as to future events.

On 23 May 2019 the UK's Competition and Markets Authority ('CMA') issued a Statement of Objection alleging anti-competitive agreements against the Group and certain other pharmaceutical companies in relation to the sale of prescription prochlorperazine. Prochlorperazine is one of the Group's smaller products and had peak sales in 2015 of £1.9m and sales of £0.3m in 2020.

The Group confirms that it has had no involvement in the pricing or distribution of prochlorperazine since 2013, when it was out-licensed by the Group. Prior to 2013, prochlorperazine was marketed directly by the Group.

The Group has reviewed the CMA Statement of Objection in detail and is working with the CMA to resolve its alleged objections.

The Group's assessment as at the date of this report, based on currently available information, is that there are no matters for which a provision is required (31 December 2019: £nil). However, given the inherent uncertainties involved in assessing the outcomes of such matters there can be no assurance regarding the outcome of any ongoing inspections/investigations and the position could change over time as a result of the factors referred to above.

19. Acquisition of Biogix Inc

On 29 December 2020 the Group completed the acquisition of 100% of the share capital of Biogix Inc, a privately held, US-based consumer healthcare company. The acquisition brings into the Group a highly successful and fast-growing brand, Amberen, with significant near-term growth potential.

The total amount paid in relation to the acquisition was $111.6m, being $110.0m consideration paid in cash on completion, $0.7m estimated working capital adjustment paid in cash on completion and $0.9m foreign exchange option cash premium paid in December 2020.

The acquisition was funded by drawdown of $22.0m and £66.1m from the Group's existing £165 million Revolving Credit Facility shortly before completion in December 2020. The Sterling drawdown was subsequently sold in a foreign exchange transaction to buy US Dollars for use in settlement of cash payments on completion. A portion of funding was drawn in Sterling so that, after taking account of existing borrowings, the Group's overall loan position by currency, matches expected post-hedging cash generated by currency.

The provisional fair values of the assets acquired, as at 29 December 2020, are as follows:

	Book value of assets and liabilities acquired $000s	Fair value adjustments $000	Fair value of assets and liabilities acquired $000s	Fair value of assets and liabilities acquired £000s
Intangible fixed assets	37	121,000	**121,037**	**89,990**
Deferred tax asset	223	–	**223**	**166**
Property, plant and equipment	419	–	**419**	**312**
Current assets (excluding cash and cash equivalents)	5,824	–	**5,824**	**4,330**
Cash and cash equivalents	382	–	**382**	**284**
Current liabilities	(1,587)	–	**(1,587)**	**(1,180)**
Lease liabilities	(378)	–	**(378)**	**(281)**
Net assets	4,920	121,000	**125,920**	**93,621**
Deferred tax liability			**(35,101)**	**(26,097)**
Goodwill			**20,750**	**15,427**
Fair value of net assets acquired			**111,569**	**82,951**
Cash consideration			**110,000**	**81,784**

Working capital adjustment paid in cash	**660**	**491**
Option premium paid in cash	**909**	**676**
Total consideration	**111,569**	**82,951**

The fair values set out above are provisional figures which will be confirmed in the 2021 financial statements, following additional review of judgemental areas including intangible asset allocation and finalisation of completion accounts.

The fair value of the intangible asset recognised on business combination all relates to Amberen. A single brand intangible asset was identified for valuation through completion of a formal purchase price allocation exercise. This as brand recognition and positioning were the key drivers for the acquisition and are regarded as the main barrier to market entry. No other intangible assets were considered to have separately identifiable value.

The brand was valued using a multi-period excess earnings approach, utilising the Group's long term cashflow forecast and a post-tax discount rate of 10.75%.

None of the goodwill recognised is expected to be deductible for income tax purposes.

Legal and professional fees incurred in the acquisition of £1.3m were recognised as non-underlying costs within administration and marketing expenses (note 4).

The amounts included in the consolidated statement of comprehensive income since 29 December 2020 included no revenue or gross profit. Had the transaction occurred on the first day of the financial year, then estimated contribution to Group revenues would have been $25.8m (£20.0m) and gross profit of $20.2m (£15.6m).

20. 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 non-underlying items. Adjusted profitability measures are presented excluding 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 ongoing business performance against both shorter term budgets and forecasts but also against the Group's longer term strategic plans. APMs used to explain and monitor Group performance:

Measure	**Definition**	**Reconciliation to GAAP measure**
Underlying EBIT and EBITDA	Earnings before interest, tax and non-underlying items (EBIT), then depreciation, amortisation and underlying impairment (EBITDA). Calculated by taking profit before tax and financing costs, excluding non-underlying items and adding back depreciation and amortisation. EBITDA margin is calculated using see-though revenue.	Note A below
Free cash flow	Free cash flow is defined as cash generated from operations less cash payments made for interest payable and similar charges, capital expenditure and tax.	Note B below
Net debt	Net debt is defined as the group's gross bank debt position net of finance issue costs and cash.	Note C below
Underlying effective tax rate	Underlying effective tax rate is calculated by dividing total taxation for the year less impact of tax rate changes and non-underlying charges, by the underlying profit before tax for the year.	Note D below
See-through income statement	Under the terms of the transitional services agreement with J&J, Alliance receives the benefit of the net profit on sales of Nizoral from the date of acquisition up until the product licences in the Asia-Pacific territories transfer from J&J to Alliance. The net product margin is recognised as part of statutory revenue. The see-through income statement recognises the underlying sales and cost of sales which give rise to the net product margin, as management consider this to be a more meaningful representation of the underlying performance of the business, and to reflect the way in which it is managed.	Note E below

Constant currency basis revenue	See-through revenue stated so that the portion denominated in non-sterling currencies is retranslated using foreign exchange rates from the previous financial year.	Note F below

A. Underlying EBIT and EBITDA

Reconciliation of Underlying EBIT and EBITDA	Year Ended 31 December 2020 £000s	Year Ended 31 December 2019 £000s
Profit before tax	**13,016**	31,076
Non-underlying items (note 4)	**20,512**	1,817
Finance costs (note 5)	**3,300**	4,553
Underlying EBIT	**36,828**	37,446
Depreciation	**1,753**	1,496
Underlying impairment (note 9)	**–**	284
Underlying Amortisation (note 9)	**–**	179
Underlying EBITDA	**38,581**	39,405

B. Free cash flow

Reconciliation of free cash flow	Year Ended 31 December 2020 £000s	Year Ended 31 December 2019 £000s
Cash generated from operations (note 17)	**46,405**	38,958
Interest payable and similar charges	**(2,866)**	(2,505)
Capital expenditure	**(4,612)**	(4,145)
Tax paid	**(4,838)**	(3,200)
Free cash flow	**34,089**	29,108

C. Net debt

Reconciliation of net debt	Note	31 December 2020 £000s	31 December 2019 £000s
Loans and borrowings – non-current	**13**	**(138,328)**	(77,040)
Cash and cash equivalents		**28,898**	17,830
Net debt		**(109,430)**	(59,210)

D. Underlying effective tax rate

Reconciliation of adjusted underlying effective tax rate	Year Ended 31 December 2020 £000s	Year Ended 31 December 2019 £000s
Total taxation charge for the year	**(4,989)**	(6,066)
Non-underlying tax credit	**(1,383)**	(348)
Adjusted underlying taxation charge for the year	**(6,372)**	(6,414)
Underlying profit before tax for the year	**33,528**	32,893
Adjusted underlying effective tax rate	**19.0%**	19.5%

E. See-through income statement

	2020 statutory values £000s	See-through adjustment £000s	2020 see-through values £000s
Revenue – Consumer healthcare brands	**85,340**	**7,719**	**93,059**
Revenue – Prescription Medicines	**44,461**	**–**	**44,461**
Total Revenue	**129,801**	**7,719**	**137,520**
Cost of sales	**(46,985)**	**(7,719)**	**(54,704)**
Gross profit	**82,816**	**–**	**82,816**
Gross profit margin	**63.8%**		**60.2%**

	2019 statutory values £000s	See-through adjustment £000s	2019 see-through values £000s
Revenue – Consumer healthcare brands	83,738	8,641	92,379
Revenue – Prescription Medicines	51,899	–	51,899
Total Revenue	135,637	8,641	144,278
Cost of sales	(49,561)	(8,641)	(58,202)
Gross profit	86,076	–	86,076
Gross profit margin	63.5%		59.7%

There is no impact from the see-through adjustment on income statement lines below gross profit.

F. Constant currency revenue

	2020 £000s	Foreign exchange impact £000s	2020 constant currency revenue £000s
See-through revenue (Note E)	**137,520**	**(329)**	**137,191**