Financial Review

Another excellent performance driven by strong revenue growth

Underlying EBITDA*

£48.6m +26%

(2020: £38.6m)

Free Cash Flow*

£30.2m -12%

(2020: £34.1m)

"Strong growth by our higher margin Consumer Healthcare brands, a change in CBEC distribution arrangements for Kelo-cote and the acquisition of Amberen led to further improvement in margins"

* Non-IFRS alternative performance measures (see note 34).

Financial Review continued

Summary underlying income statement
Year ended 31 December

	2021 £m	2020 £m	Growth
See-through revenue*	**169.6**	137.5	+23%
Statutory revenue	**163.2**	129.8	+26%
Gross profit	**109.5**	82.8	+32%
Operating costs (including IFRS 2 share options charge)	**60.9**	44.2	+38%
Underlying EBITDA*	**48.6**	38.6	+26%
Depreciation and underlying amortisation	**2.9**	1.8	+68%
Underlying operating profit (EBIT)	**45.6**	36.8	+24%
Finance costs	**3.4**	3.3	+4%
Underlying profit before taxation	**42.2**	33.5	+26%
Reported profit before taxation	**18.2**	13.0	+39%
Underlying basic earnings per share	**6.39p**	5.11p	+25%
Reported basic earnings per share	**1.37p**	1.51p	-9%
Proposed total dividend per share	**1.691p**	1.610p	+5%

* 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 Group's longer-term strategic plans. APMs are defined in note 34.

Specifically, see-through revenue includes all sales from Nizoral™ as if they had been invoiced by Alliance as principal. For statutory accounting purposes the product margin on Nizoral sales made on an agency basis is included within Revenue, in line with IFRS 15.

Underlying profitability metrics are presented as we believe this provides investors with useful information about the performance of the business. In 2021, underlying results exclude the amortisation and impairment of acquired intangible assets, the CMA provision and restructuring costs; in 2020, underlying results exclude the amortisation and impairment of intangible assets, and costs associated with the acquisition of Biogix Inc. Further detail can be found in note 5.

Revenue summary
Year ended 31 December

	2021 £m	2020 £m	Growth	CER growth
Kelo-cote	**48.8**	34.7	+41%	+47%
Amberen	**19.2**	–	–	–
Nizoral*	**20.6**	21.0	-2%	+1%
Other consumer brands	**33.2**	37.3	-11%	-9%
Consumer Healthcare*	**121.8**	93.0	+31%	+36%
Prescription Medicines	**47.8**	44.5	+8%	+8%
See-through revenue*	**169.6**	137.5	+23%	+27%
LFL Consumer Healthcare see-through revenue*, excluding Amberen	**102.6**	93.0	+10%	+14%
LFL see-through revenue*, excluding Amberen	**150.4**	137.5	+9%	+12%
Statutory revenue – Consumer Healthcare	**115.4**	85.3	+35%	+41%
Statutory revenue – Group	**163.2**	129.8	+26%	+30%
LFL Consumer Healthcare statutory revenue, excluding Amberen	**96.1**	85.3	+13%	+16%
LFL Group statutory revenue, excluding Amberen	**144.0**	129.8	+11%	+14%

Revenues and operating profits

The Group delivered a strong financial performance in the year, with see-through revenue increasing 23% to £169.6m (2020: £137.5m) and 27% at constant exchange rates (CER). Like-for-like revenue excluding Amberen, which was acquired in December 2020, increased 9% (12% CER). Group revenue was adversely impacted in 2021 by exchange rate movements, principally the strengthening of Sterling against the US Dollar, which depressed see-through revenue by approximately £5.1m. Statutory revenue increased 26% to £163.2m (2020: £129.8m) and rose 30% CER.

The strong growth in our higher margin consumer health brands, coupled with changes to our distribution arrangements for Kelo-cote and the acquisition of Amberen, led to a 32% increase in gross profit to £109.5m (2020: £82.8m). Consequently, gross margin increased 430 basis points (bp) to 64.5% of see-through revenue (2020: 60.2%). Gross margin relative to statutory revenue was 67.1% (2020: 63.8%).

Underlying profit before tax increased 26% to £42.2m (2020: £33.5m) driving 50 basis point (bp) margin improvement to 24.9% despite increased operating expenses through the inclusion of the Amberen cost base, coupled with a modest increase in depreciation and underlying amortisation costs. Reported profit before tax increased 39% to £18.2m (2020: £13.0m).

We increased our investment in the business in 2021, improving our operating capabilities and boosting the level of marketing support provided to a number of our brands. With the resumption of discretionary spend, which we deferred or cancelled in 2020 in response to the global pandemic, in addition to the aforementioned inclusion of the Amberen cost base, operating costs (defined as underlying administration and marketing expenses, excluding depreciation and underlying amortisation charges) increased 37% versus the prior year to £58.6m (2020: £42.8m). As a result, operating costs as a percentage of sales increased 3.5% to 34.6% of see-through sales (2020: 31.1%).

The IFRS 2 share options charge for the year was £2.3m, up £0.9m versus that for the prior year (2020: £1.4m) reflecting an increase in the share price in 2021.

Net of the increase in operating costs and the share options charge, underlying earnings before interest, taxes, depreciation and underlying amortisation (EBITDA) increased 26% in the year to £48.6m (2020: £38.6m), whilst underlying operating profit (EBIT) increased by 24% to £45.6m (2020: £36.8m).

Reported operating profit increased by £5.3m to £21.6m (2020: £16.3m), with non-underlying items of £24.1m (2020: £20.5m). Further detail on non-underlying items is provided below and in note 5.

Depreciation and amortisation

Depreciation charges for the year were £1.6m, down £0.2m on the prior year (2020: £1.8m). In addition, we incurred £1.3m of amortisation costs relating to our new ERP system, which went live in 2021. Following a change in accounting policy, the costs relating to this system are now treated as an intangible asset (previously included within tangible assets). Further detail is provided in note 2.9.

Finance costs

Finance costs remained in line with the prior year at £3.4m (2020: £3.3m), with a £1.0m increase in borrowing costs, reflecting the higher level of borrowings following the Amberen acquisition, being largely offset by higher net gains on currency movements in the year.

The average interest charge on gross debt during the year (including non-utilisation fees) was 2.24% (2020: 2.55%).

Non-underlying items

Non-underlying items in the year principally comprise amortisation charges for Prescription Medicines and certain other brand assets, impairment charges identified as a result of the annual impairment review (see note 11), a provision of £7.9m in relation to the Competition and Markets Authority (CMA) decision (see note 20) and restructuring costs relating to the closure of our offices in Milan and Los Angeles. For the prior year, non-underlying items comprised amortisation and impairment charges, together with costs relating to the Amberen acquisition. Further detail on non-underlying items is provided in note 5.

Reconciliation of underlying to reported profit before tax

Year ended 31 December

	2021 £m	2020 £m
Underlying profit before taxation	**42.2**	33.5
Non-underlying items:		
Amortisation of acquired intangibles	**(7.2)**	(7.2)
Impairment of intangible assets and goodwill	**(6.2)**	(12.1)
CMA provision	**(7.9)**	–
Restructuring costs	**(2.4)**	–
Other	**(0.4)**	–
Acquisitions costs – Biogix Inc. (Amberen)	**–**	(1.3)
Total	**(24.1)**	(20.5)
Reported profit before taxation	**18.2**	13.0

Taxation

The underlying tax charge for the year was £8.0m (2020: £6.4m), which equates to an effective tax rate of 19.0% (2020: 19.0%). The total tax charge for the Year was £10.8m (2020: £5.0m), equating to an effective tax rate on reported profits of 41.6% (2020: 38.3%) and includes a £5.0m charge following the increase in the UK tax rate from 19% to 25% (this charge relates primarily to an increase in the deferred tax balances on intangible assets).

Earnings per share

Underlying basic earnings per share, the measure used by the Board in assessing earnings performance, was 6.39p, an increase of 25% on the prior year (2020: 5.11p), reflecting the increase in the Group's underlying profit after tax offset by a modest increase in the number of shares in issue.

Reported basic earnings per share decreased by 9% to 1.37p (2020: 1.51p)) due to the greater impact that non-underlying items had on reported earnings in the year versus the prior year.

Dividend

The Board is pleased to announce that it is proposing a final dividend payment of 1.128p per share for 2021, an increase of 5% on the final dividend payment for 2020, taking the total dividend payment for the year to 1.691p (2020: 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 for 2021, subject to approval at the Company's AGM on 18 May 2022, will be paid on 7 July 2022, to shareholders on the register on 10 June 2022.

Financial Review continued

Balance sheet

Intangible assets increased by £0.8m in the year to £413.7m (31 December 2020: £412.9m).

Following the successful deployment of Microsoft Dynamics D365 into the business in mid-2021, we conducted a review of the associated capitalised project costs, and as a result have transferred these capitalised costs, amounting to £15.0m, from property, plant and equipment to intangible assets in-line with the deployment of the live system into the business. These additions have effectively been offset by underlying amortisation charges of £1.4m, non-underlying amortisation charges of £7.2m and non-underlying impairment charges of £6.2m; the remaining balance being due to exchange rate movements and a £0.2m true-up for working capital relating to the Amberen acquisition.

Working capital

Net working capital at 31 December 2021 was £22.0m, an increase of £2.7m on that at the start of the year (31 December 2020: £19.3m), primarily reflecting movements in payables and receivables balances.

Inventories, net of provisions, reduced £1.8m to £21.1m at 31 December 2021 (31 December 2020: £22.9m). This reduction was caused by the partial unwinding in H1 2021 of the higher inventory levels built up during 2020 in order to mitigate against any disruption to our supply chain following the UK's departure from the EU, and to ensure continuity of supply through the pandemic.

Receivables increased by £5.7m, reflecting both the increase in revenues, and the timing of sales and cash receipts in the second half of the year, versus the equivalent period in 2020.

Payables increased by £1.2m, reflecting the phasing of invoices and payments around the year end, with a £2.8m reduction in trade payables being more than offset by a £3.8m increase in accruals and deferred income.

Provisions

In the year, the Group created provisions totalling £9.5m as at 31 December 2021 (31 December 2020: £Nil), £7.9m of which relates to the CMA decision, the remainder, £1.6m, being a provision for restructuring costs. Further detail is provided in note 20.

Cash flow and net debt

Free cash flow (see note 34 for definition) for the year remained strong at £30.2m (2020: £34.1m), with second half cash flows being significantly stronger than first half (H1 2021: £6.5m; H2 2021: £23.7m), reflecting both the reversal of the favourable movements in net working capital seen at the end of 2020 during the first half of the year, and the timing of sales in the second half. Cash generated from operations decreased by 3% to £44.9m (2020: £46.4m).

As a result, net debt reduced by £22.4m to £87.0m at 31 December 2021 (31 December 2020: £109.4m), with Group leverage reducing to 1.73 times (31 December 2020: 2.43 times).

We expect our cash generation to remain strong in 2022, and for leverage to reduce below 1.5 times by the end of the year, in the absence of further acquisitions.

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 part-fund larger acquisitions. Borrowings are denominated in Sterling, Euro and US Dollars.

Implementing our ERP system

We are already starting to see the business benefits from our ERP system, which went live in the first half of 2021, representing the culmination of a significant period of investment and cross-functional team effort in scoping, design, development and implementation activities. Used by our operations and finance teams around the world, the system has enabled us to simplify, standardise and automate business processes across the Group. Due to the high level of preparation work undertaken pre-implementation, the changeover from old to new systems was virtually seamless.

Group risk management policy is to hedge up to 75% of estimated future foreign currency EBITDA exposure, for up to the next 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.

The Group benefits from a £165m Revolving Credit Facility (RCF) and a £50m Accordion Facility, expiring in July 2024. This facility provides flexibility for the Group to pursue its acquisition strategy over the next couple of years to complement future organic growth. £48m of this RCF, together with the whole of the accordion facility, remained unutilised as at 31 December 2021.

The cash generated from our trading operations is applied as follows:

- in reinvesting in our current portfolio of brands, with investment being primarily targeted at our larger Consumer Healthcare brands
- in acquiring new Consumer Healthcare brands, to complement our existing portfolio and leverage our operating platform
- in paying down debt; and
- in paying dividends to our shareholders.

Andrew Franklin
Chief Financial Officer

30 March 2022