Continued strong performance despite pandemic challenges

The Group delivered a robust financial performance in 2020, against the backdrop of the global pandemic, with see-through revenues decreasing just 5% to £129.8m (2019: £144.3m) and statutory revenues decreasing 4% to £135.6m (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 Healthcare 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 IFRS 2 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 Medicines 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 Medicines 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.

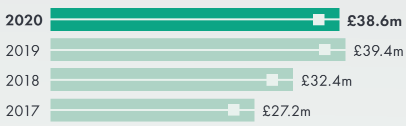
2020 Highlights

- Underlying EBITDA remained resilient, despite a 5% fall in see-through revenues (statutory revenues -4%), due to good control over operating expenditure; operating leverage maintained in line with 2019
- Underlying profit before tax up 2% (reported profit before tax -58%, due to non-cash impairment and amortisation charges, and acquisition costs)
- Very strong cash generation, helped by favourable movements in working capital, with post-acquisition leverage still below 2.5x

Underlying EBITDA*

£38.6m -2%

(2019: £39.4m)

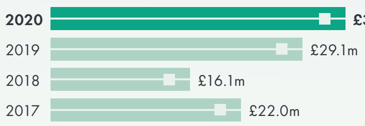


Reported operating profit £16.2m (2019: £35.6m) -54%

Free Cash Flow*

£34.1m +17%

(2019: £29.1m)



Cash generated from operations £46.4m (2019: £39.0m) +17%

* Non-IFRS alternative performance measures (see note 33). See-through revenue includes sales from Nizoral as if they had been invoiced by Alliance. For statutory accounting purposes the product margin on Nizoral sales is included within Revenue, in line with IFRS 15.