ALLIANCE PHARMA

International brands driving performance

Alliance Pharma (APH) is a profitable, cash-generative, specialty pharma business. The proportion of sales generated from higher margin international star brands is rising rapidly, and will be boosted by the recent acquisition of Nizoral in APAC, and UK approval and launch of Xonvea for nausea and vomiting in pregnancy, where conservative management has failed. Investment behind these brands together with compliance with new regulatory directives will limit short term growth but positions the company well for the medium term. APH is cash-generative allowing it to pay down debt at a fast rate. Meanwhile, it offers a dividend yield of 2.0%.

- **Strategy:** Since inauguration, APH has adopted a buy-and-build model, with 35 deals over 20 years assembling a portfolio of more than 90 products and establishing a strong track record. It is accelerating growth through investing in multi-market brands, with infrastructure supported by its 'local' brands.

- **Interims:** Underlying sales, excluding acquisitions, grew 4% to £54.5m (£49.4m), driven by international brands: Kelo-cote (+84%) and MacuShield (+23%). Operating costs reflected continued investment in growth brands, leaving underlying EBITDA and EBIT in line with 1H'17. Net debt at 30 June was £86.3m.

- **Growth brands:** APH continues to evolve and will now report on 'international star' brands and 'local' brands (formerly bedrock and local heroes). In 1H'18, international stars represented 32% of sales, and will be boosted from 2H'18 by the inclusion of Nizoral and, to a lesser extent, Xonvea.

- **Risks:** APH is working to ensure that all products are compliant with new regulations being introduced over the next two years. This, combined with Brexit-related costs, is expected to increase costs annually by £0.7m, with one-off costs of ca.£0.8m in 2019.

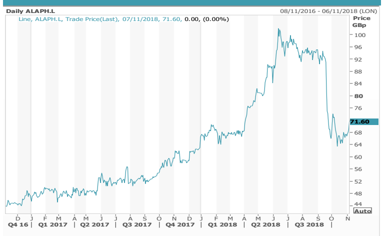
- **Investment summary:** Recent acquisitions look set to boost APH's underlying CAGR to 16% in sales and 10% in EPS over the next three years. On the back of this strong performance, the company is expected to continue with its progressive dividend policy. The shares are trading on a 2018E P/E of 15.4x, falling to 14.1x in 2019E, and carry a prospective dividend yield of 2.0%.

Financial summary and valuation

Year end Dec (£m)	2015	2016	2017	2018E	2019E	2020E
'See-through' sales	48.3	97.5	101.3	124.7	145.6	158.0
Statutory sales	48.3	97.5	101.3	117.7	131.5	143.8
Underlying EBITDA	13.6	26.7	28.2	33.6	37.4	40.6
Underlying pre-tax profit	12.2	23.5	24.8	28.9	32.7	36.6
Statutory pre-tax profit	15.2	22.2	*28.4	*22.3	31.3	35.2
Underlying EPS (p)	4.0	4.0	4.2	4.7	5.1	5.7
Statutory EPS (p)	4.7	3.9	*6.1	*3.3	4.8	5.4
DPS (p)	1.1	1.2	1.3	1.5	1.6	1.8
Net (debt)/cash	-71.5	-76.1	-72.3	-85.7	-66.8	-50.1
Net debt/EBITDA (x)	5.3	2.8	2.6	2.5	1.8	1.2
P/E (x)	18.0	18.0	16.9	15.4	14.1	12.6
Dividend Yield (%)	1.5	1.7	1.9	2.0	2.2	2.5

*After inclusion of non-underlying items: £4.4m in 2017 and -£5.3m in 2018
Underlying numbers exclude exceptional items and share-based payments
Source: Hardman & Co Life Sciences Research

Pharmaceuticals & Biotechnology



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**APH**
Price (p)	**71.6**
12m High (p)	102.5
12m Low (p)	56.2
Shares (m)	515.1
Mkt Cap (£m)	368.8
EV (£m)	454.6
Free Float*	89%
Market	AIM

*As defined by AIM Rule 26

Description

APH acquires, markets and distributes medical and healthcare brands in the UK, Europe, and the US (direct sales) and in the RoW (via a distributor network), through a buy-and-build strategy, generating relatively predictable and strong cashflows.

Company information

CEO	Peter Butterfield
CFO	Andrew Franklin
Chairman	David Cook

+44 1249 466 966
www.alliancepharmaceuticals.com

Key shareholders

Directors	11.0%
Fidelity	9.4%
MVM Life Sciences	7.5%
Slater Invests.	7.2%
Blackrock	6.0%
Artemis	3.5%

Diary

Jan'19	Trading update
Mch'19	Finals
Apr'19	AGM

Analysts

Martin Hall 020 7194 7632
mh@hardmanandco.com
Dorothea Hill 020 7194 7626
dmh@hardmanandco.com
Grégoire Pavé 020 7194 7628
gp@hardmanandco.com

Table of contents

Interim results

Key features

APH reported a very solid performance in 1H'18, with low single digit underlying sales growth, boosted at the reported level by acquisitions, and underlying EBITDA and EBIT in line with 1H'17 as a result of planned investment in sales and marketing to support the international growth brands. This was evident from the strong sales performances of those brands. This strategy will continue in the second half of fiscal 2018. However, 1H'18 figures do not have any benefit from the major acquisition of the Nizoral brand rights for the APAC region, which was concluded only at the very end of the reporting period. The boost from this acquisition will be first seen in the full-year 2018 results.

Financial

- **Sales:** Previously released in a trading update, reported 1H'18 sales growth was 10.3% to £54.5m (£49.4m in 1H'17 restated for adoption of IFRS 15), and slightly ahead of expectations. The composition of this growth was 4.3% organic, 7.7% acquisitions and -1.7% currency.
- **Key brands:** Kelo-cote was the star performer with underlying sales growth of 84% to £10.9m (£6.2m) on the back of strong sales in APAC and Europe. MacuShield maintained its consistently high level of growth since acquisition, rising 23% to £3.7m (vs. £3.0m re-stated).
- **Acquisitions:** Both of the products acquired in December 2017 have performed broadly in line with forecasts. Sales of Vamousse (head lice treatment) were up 11% to £2.7m (vs. £2.6m estimated pre-acquisition) and Ametop sales were £1.1m (vs. £1.0m estimated).
- **COGS:** The gross margin (59.6%) increased 0.8 percentage points over 1H'17 (+58.8%, also adjusted for IFRS 15), leveraged by accelerating sales of Kelo-cote and MacuShield, the higher-margin products.
- **SG&A:** The planned increase in sales and marketing to support the international growth brands and the newly-acquired Vamousse brand was larger than forecast at -£18.6m (excluding share-based costs), an increase of 23% over the equivalent figure (-£15.2m) in 1H'17. With the launch of Xonvea in 2H'18, the rate of increase looks set to rise even further.
- **EBIT:** The rise in SG&A held back underlying EBITDA and EBIT, which were broadly flat over 1H'17.
- **Dividend:** APH is continuing its progressive dividend policy with the interim payment rising +10% to 0.487p (0.443p) per share, to be paid on 10 January 2019.
- **Cashflow/net debt:** Although free cashflow (Hardman & Co definition) in 1H'18 was lower, as anticipated, than that seen in 1H'17, at £10.9m (£14.7m), it was better than forecast, such that net debt at 30 June was -£86.3m, vs. our forecast of £89.0m, after increased working capital and paying for the acquisition of Nizoral. Leverage at 30 June was 2.4x, well below the banking covenants (3.0x).
- **Exceptional items:** APH had previously announced the disposal of its investment in Unigreg Ltd, a 60% JV in China, for a cash consideration of £2.9m, realising a profit of £1.5m. In addition, it decided to write down its 20% investment in the milk formula JV business, Synthasia Ltd, which led to an impairment charge of -£2.5m. For the full-year, the Board has decided to write-down the economic value of its anti-malarial products due to a change in the market and a resulting decline in sales. The year-end non-cash charge is expected to be -£4.3m.

APH interims – actual vs expectations					
Interims to June (£m)	1H'17 actual	1H'18 actual	CER %	1H'18 forecast	Delta Δ
Group sales	49.4	54.5	+3%	54.0	+0.5
COGS	-20.3	-22.0		-22.4	+0.4
Gross profit	29.0	32.4		31.6	+0.8
Gross margin	58.8%	59.6%		58.6%	+1.0pp
SG&A	-15.2	-18.6		-17.2	-1.4
Underlying EBITDA	14.4	14.3		15.8	-1.5
Underlying EBIT	**14.0**	**13.8**		**15.0**	**-1.2**
EBIT margin (%)	28.3%	25.3%		27.5%	-1.8pp
Underlying PBT	12.5	12.4		13.3	-0.9
Tax rate	20.5%	19.0%		20.0%	+1.0pp
Underlying net income	10.0	10.0		10.6	-0.6
Underlying EPS (p)	**2.10**	**2.08**	**-10%**	**2.22**	**-0.14**
Free cashflow	14.7	10.9		8.2	+1.7
Net cash/(debt)	**-63.4**	**-86.3**		**-89.0**	**+2.7**

Numbers may not add up exactly due to rounding
Underlying figures exclude exceptional items and share-based costs
Source: Hardman & Co Life Sciences Research

Specific features of interim results

- **Local brands:** Recent acquisitions have meant that APH's strategy is continuing to evolve, with the product range now largely divided between the 'international star' brands and 'local' brands (formerly referred to as either 'bedrock' or 'local heroes'). The group of local brands support infrastructure and generate positive cashflow; however, by the very nature of these local brands, the growth rate will be variable and can be influenced by short-term events. In 1H'18, sales of this group declined 7.5% to £37.3m (£40.2m), impacted, in some cases, by distributor buying patterns, manufacturing delays, and regulatory changes. However, sales in the second half are expected to recover to a level consistent with that seen in 2H'17, as the distributor timings and manufacturing delays unwind. Local brands still represent an important part of the group, and remain a key component of its buy-and-build strategy.

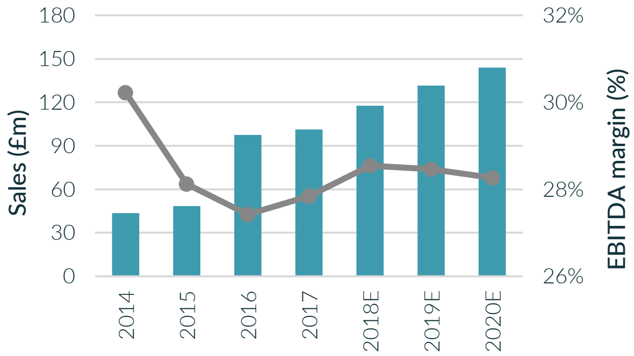
- **Regulation:** Work to satisfy the requirements of the Falsified Medicines Directive (FMD) which comes into force in February 2019 to prevent counterfeit medicines reaching the EU, are impacting the SG&A line. This will continue in 2H'18 and beyond.

- **Nizoral:** Acquisition of the marketing brand rights for the APAC region from Johnson & Johnson (JNJ) has increased the group's international footprint and provided scale to the company's operations in APAC. APH has signed a two-year transition service agreement (TSA) with JNJ, which could be extended by periods of 12 months should the need arise, to allow for the transfer of around 30 marketing authorisations.

- **Xonvea/Diclectin:** The Medicines and Healthcare products Regulatory Agency (MHRA) has approved Xonvea, formerly referred to as Diclectin, for the treatment of nausea and vomiting in pregnancy (NVP) in patients where conservative management has failed, as a prescription-only medicine. Xonvea was launched in the UK on 2 October 2018. APH is also preparing the regulatory filings for its territories in Europe.

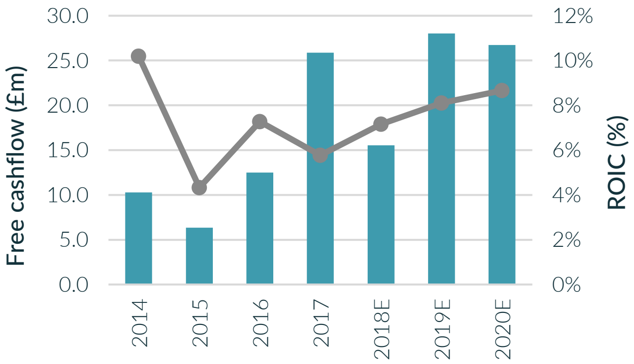
- **Brexit:** There is limited exposure to the business following Brexit, as most products are made and sold within territory. Where EU marketing authorisations are held by the UK trading company, these authorisations are being transferred to its Irish subsidiary to enable the release of products into the EU. Management intends to build inventory by the year-end to ensure that it has sufficient supplies of products in place when Brexit occurs next March and FMD is implemented in February 2019.

Sales and EBITDA margin



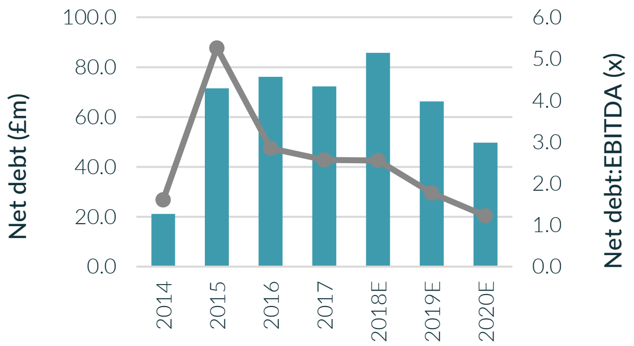
- The first full year of Nizoral sales in APAC should contribute to strong group sales (statutory basis) in 2019E
- We forecast Xonvea sales of £1.8m from 2019, with continued growth from 2020 following further EU launches
- Nizoral sales will increase group EBITDA margins in 2018E and 2019E, balancing out costs of launching Xonvea in the UK
- The end of the TSA period (ca.2020) will result in an 'apparent' drop in the reported EBITDA margin because of the statutory accounting methodology for Nizoral

Cashflow



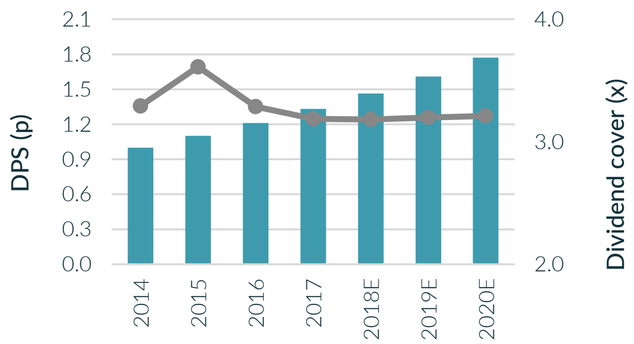
- APH is strongly cash-generative, with forecasts in the range £25m-£30m p.a. with a full-year Nizoral contribution
- Underpinned by the established international star brands and the sustainable bedrock of established products
- The drop in 2018E FCF results from movement in working capital due, in part, to regulatory and politically induced inventory changes and inventory purchases associated with recent acquisitions
- Operating cashflow conversion is typically ca.90% of EBIT; free cashflow definition includes exceptional items

Balance sheet



- Net debt will increase in 2018 due to the increased debt facility undertaken to part-fund the Nizoral acquisition
- At the point of closing the deal with JNJ, management indicated that leverage would be 2.5x, which is expected to fall in subsequent years
- Financial covenants for the life of the credit facility remain at 3.0x to cover potential acquisition spikes

Dividends



- Progressive dividend policy since payments commenced in 2009
- We forecast the full-year dividend to rise to 1.46p for 2018
- There is scope to increase the dividend

Source: Company data; Hardman & Co Life Sciences Research

Operational update

Focus of company has evolved into 'international star' brands…

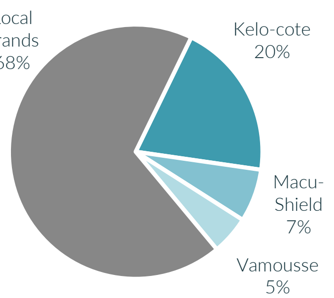
…supported by 'local brands'

Since inception, APH has continually evolved as it made either company or brand acquisitions. Today is no different. Now that the company has a portfolio of up to five international growth brands, which will represent an increasingly larger proportion of group sales, management has amalgamated the two portfolios of products formerly known as 'bedrock' and 'local heroes' into a single group of 'local brands'. These remain important for supporting geographical infrastructure and generated strong cashflow, even though they are generally lower-growth products.

Also, the next two years will represent a period of transition because, although the Nizoral brand in APAC is wholly-owned by APH, it will not be consolidating the financial results – sales or cost base – during the TSA period. On page 11, a *pro forma* 'see-through' P&L is provided to show the impact, as if had APH recognised the sales and costs.

International star brands

APH – 1H'18 sales breakdown



Source: Hardman & Co Life Sciences Research

APH currently has three marketed international star brands and owns commercial rights to a further two in certain territories, which have the potential to boost future growth. Over the forecast period, these brands are expected to represent an increasing proportion of sales and, being high-margin products, should be a rising contributor to gross profit. In 1H'18 the three marketed international star brands represented 32% of group sales, up from 19% in 1H'17 and 20% in 2H'17.

APH's international star brands

Brand	Indication	Comment
Kelo-cote	Treatment of hypertropic/keloid scars	84% CER growth to £10.9m
MacuShield	Eye supplement	23% CER growth to £3.7m
Vamousse	Treatment for head lice	11% CER growth to £2.7m
Nizoral	Medicated anti-dandruff shampoo	Expected to be consolidated during fiscal 2020
Xonvea	Nausea/vomiting of pregnancy, where conservative management has failed	Launched in the UK on 2 October 2018

Source: Hardman & Co Life Sciences Research

Kelo-cote

The performance of Kelo-cote has greatly exceeded management's expectations highlighted at the time of acquisition…

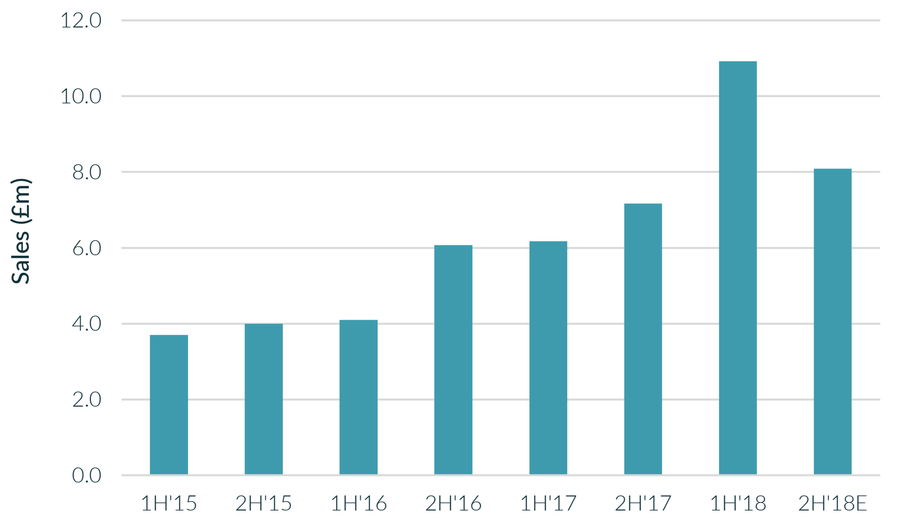
Kelo-cote is a fast-drying, patent-protected treatment for hypertrophic and keloid scars. APH owns the global rights to Kelo-cote outside the US, with the product currently sold in 65 countries. China is its lead market and 1H'18 sales were particularly strong in APAC. Underlying sales in 1H'18 were also strong in certain European territories, notably France and Portugal, which benefited from the timing of distributor ordering during the period. Like-for-like sales growth was 84% in 1H'18, to give reported sales of £10.9m (£6.2m).

In 2016, Kelo-cote became APH's first product to have annual sales of £10.0m, a level that was more than matched in just a half-year period in 2018, even though some of these sales benefited from buying patterns in certain territories.

…with much more growth still to come

Beyond 2018, new geographical launches, brand support and product range extensions are expected to see further growth in excess of management's expectations at the time of the product's acquisition from Sinclair Pharma.

Progression of Kelo-cote sales



Source: Alliance Pharma, Hardman & Co Life Sciences Research

MacuShield

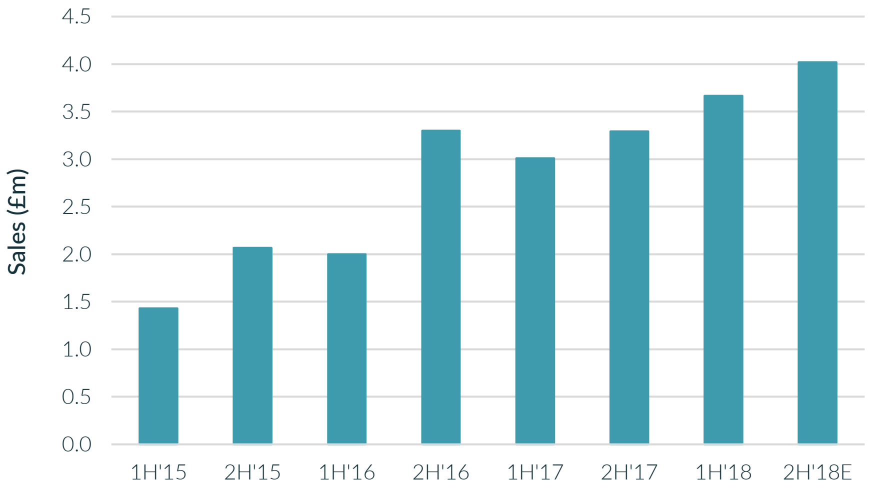
MacuShield has delivered strong growth since acquisition…

MacuShield is a nutritional eye supplement and is the number-one recommended supplement by eye experts. It contains all three macular pigments and is supported, by extensive scientific data. The UK remains the biggest market with increased domestic distribution (e.g. retailing at Boots and Walgreens Boots Alliance), which has resulted in a sales CAGR of 20% since acquisition. Medium-term growth will be driven by further launches in Europe and some international territories.

…and remains on course to achieve sales of £12m-£15m within five years

Total sales in 1H'18 were £3.7m (£3.0m) and, with strong claims in the marketing literature and targeted advertising in both the ophthalmic and consumer healthcare arenas, the product remains on course to achieve sales of £12m-£15m within five years.

Progression of MacuShield sales



Source: Alliance Pharma, Hardman & Co Life Sciences Research

Vamousse is leading APH's foray into the US market

Vamousse

APH announced the acquisition of Vamousse from TyraTech Inc (TYR.L) in December 2017. The product was launched in the US and the UK in 2014. Vamousse is a head lice treatment with its USP being a fast-acting, pesticide-free product, containing a specific unique mixture including isopropyl alcohol, isopropyl myristate and geraniol in a mousse formulation, and is clinically proven to kill up to 100% of lice and eggs within 15 minutes of being applied.

Sales in 1H'18 were in line with our forecasts, rising 11% to £2.7m compared to the sales achieved in 1H'17 whilst still under TyraTech's ownership. The second half of the year is important, as it coincides with the return to school, a time when outbreaks of head lice are common. For the medium term, growth is expected to come from launches of the product into new territories.

Nizoral

The acquisition of marketing rights for Nizoral, a medicated anti-dandruff shampoo, in 18 APAC territories occurred at the end of the trading period and, thus, had no impact on underlying 1H'18 results, although it did affect the balance sheet. A contribution will be included in full-year results, but this will be only the net income (in the sales line) accrued from JNJ under the TSA. However, APH has indicated that it will produce a 'see-through' P&L for the full year including Nizoral, as if all sales and costs have been fully consolidated (see table on page 11).

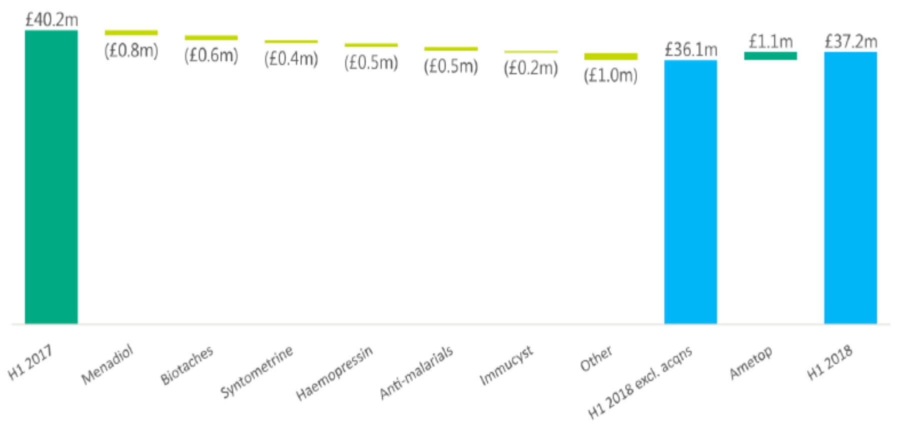
Local brands

Local brands support group infrastructure and generate positive cashflow

The 'local brands' consists of a group of around 90 established prescription or consumer healthcare products, which are sold in a limited number of local markets. APH provides some promotional investment to a small number of these brands and the remaining brands require little or no investment. This portfolio generates strong cashflow and is used to help support the group's overall infrastructure.

Little growth is expected from this group of products, and sales will be characterised by a number of positive and negative performances. Sales can also be influenced by a number of, generally, short-term factors, including buying patterns by distributors, timing of orders, manufacturing delays, and localised competitive issues. This was the case during 1H'18, when underlying sales were down 10% excluding the contribution from Ametop (acquired in December 2017), due to some timing differences and market evolution (e.g. anti-malarials in the UK).

Local brands sales movement 1H'18



Source: Alliance Pharma, Hardman & Co Life Sciences Research

Regulation

Falsified Medicines Directive (FMD)

New rules approved by the European Parliament will be introduced in February 2019, which will require safety features within the packaging of medicines at risk of falsification.

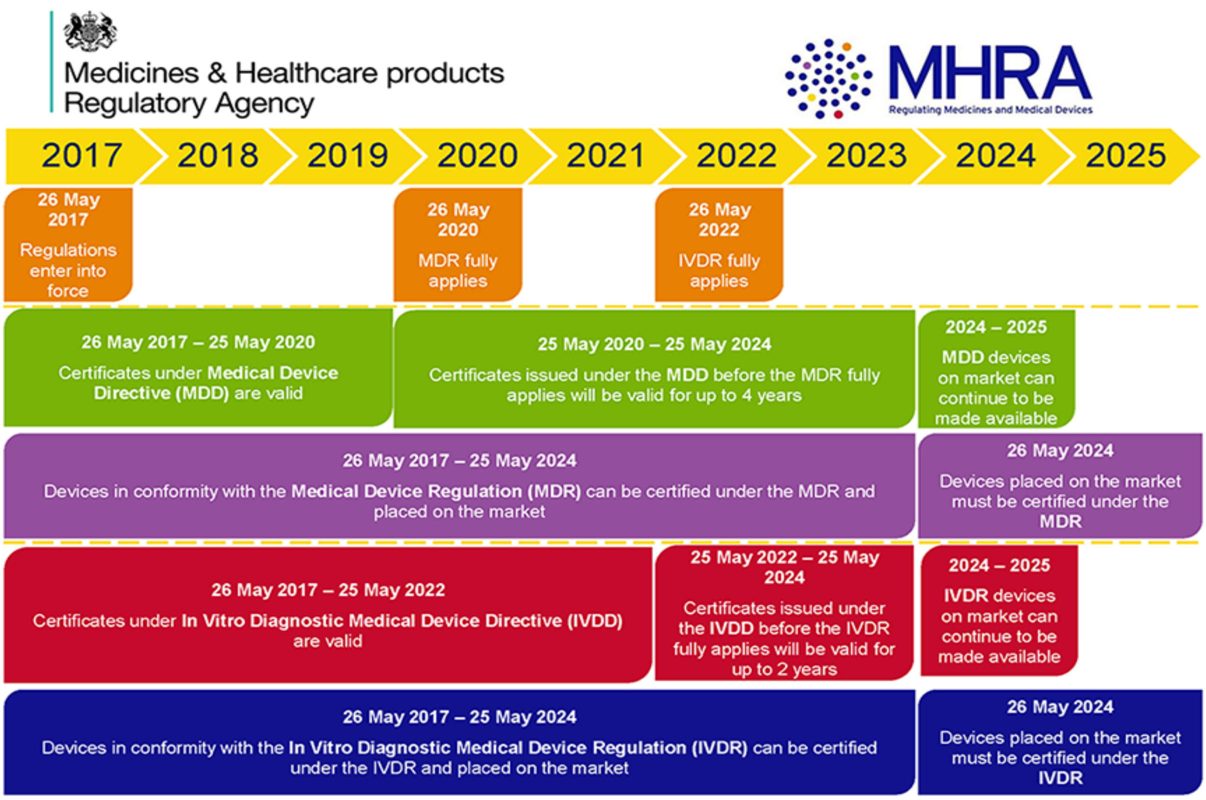
Falsified medicines are often disguised as authentic medicines but may contain ingredients that are potentially toxic, of low quality, or at the wrong dose. As they have not been properly checked for quality, safety and efficacy, as required by strict EU authorisation, they can pose a risk to health. Given that falsified medicines are becoming more sophisticated, there is a greater risk of them reaching patients.

The new Delegated Regulation (EU2016/161) being introduced is a supplement to the FMD, which requires two mandatory safety features that will allow medicines to be verified and authenticated:

- A unique identifier (2D data matrix code and human readable information) to be placed on medical products that can be scanned at fixed points along the supply chain.
- Tamper evident features on the pack.

The delegated regulation will come into force in the UK no later than 9 February 2019, by which time marketing authorisation holders will be required to place the safety features on the packaging of medicines that fall within the remit of the delegated regulation. APH is working with its contract manufacturers to ensure that all its products are compliant with this new regulation.

MHRA timetable for the introduction of MDD



Source: Medicines & Healthcare products Regulatory Agency

Medical Device Directive (MDD)

Concomitantly, APH has also been working on compliance with new EU regulations being introduced for medical devices (and *in vitro* diagnostics) that are being introduced over a number of years, as shown in the graphic above. Technical documentation and processes must meet the new requirements by May 2020.

Corporate

Brexit

Along with most international trading companies, APH is continuing to monitor Brexit, which, at this stage, must continue to encompass the whole range of possible outcomes. Irrespective of the outcome, products being sold in the EU must comply with the new EU regulations described above, so plans are in place to ensure that products will be both FMD- and MDD-compliant.

To protect against increased border delays after March 2019 and any timing issues associated with the implementation of FMD, APH intends to build up inventories, indicating that there will be a working capital cost of £3.5m in fiscal 2018, which will unwind in 2019.

In addition, given that marketing authorisations for EU medicines must be held by an EU-based company, APH has established an affiliate in the Republic of Ireland. There is expected to be a modest cost increase related to the duplication of a limited number of key statutory roles within APH.

Financial impact

Investment to comply with regulatory changes, coupled with preparations for Brexit will have a modest P&L impact and result in a short-term increase in working capital

Consequently, the company is incurring additional costs related to FMD, MDD and Brexit. The incremental increase of £0.6m-£0.7m in 2018 is expected to be absorbed within the company's budgeting contingency and is unlikely to alter forecasts. However, there are expected to be further one-off costs of ca.£0.8m in 2019, which had not been included in previous forecasts. In addition, there will be recurring costs associated with these compliance and regulatory functions in the order of £0.7m p.a. Therefore, we have increased our operating cost estimates by £1.5m and £1.0m in fiscal years 2019 and 2020, respectively, reducing EBITDA and underlying EBIT by the same amounts.

Enterprise resource planning

Given that APH has evolved into a multi-location, multi-product operation, the decision was made to invest in a new enterprise resource planning and financial system, Microsoft Dynamics AX. Implementation and validation of the new system are taking place during 2018 and the system is scheduled to be operational during 1Q'19. This system will help to streamline the group's processes with the scope to provide scale as the company pursues further growth opportunities and expands into more markets. The cost of this new system had already been included in our forecasts.

'See-through' accounts

APH will focus on this to provide a clearer picture regarding underlying performance

APH will be providing a 'see-through' P&L account during the TSA period for Nizoral to give investors with a clearer view of the underlying performance of the group. In this version, sales and costs of Nizoral will be included as if the product was being sold directly by APH. It will also provide a clearer picture of growth when this does occur, as APH will recognise sales when the licence in each APAC territory is transferred from JNJ to APH (expected during 2020).

- **Sales:** The CAGR in sales over the three-year forecast period would be 16%, including Nizoral.
- **EBITDA:** Underlying EBITDA on this basis would remain unchanged.

'See-through' profit & loss account

Year-end Dec (£m)	2017	2018E	2019E	2020E
GBP:EUR	1.141	1.13	1.13	1.13
GBP:USD	1.289	1.33	1.33	1.33
Sales	**101.3**	**124.7**	**145.6**	**158.0**
Cost of goods	-42.4	-51.4	-60.3	-65.2
Gross profit	59.0	73.3	85.3	92.8
Admin. & marketing	-31.7	-41.1	-49.2	-53.7
Underlying EBITDA	**28.2**	**33.6**	**37.4**	**40.6**
EBITDA margin	27.8%	26.9%	25.7%	25.7%
Reported EBITDA	31.1	26.9	36.0	39.2
Depreciation	-0.7	-1.2	-1.5	-1.5
Amortisation	-0.3	-0.2	-0.2	-0.2
Other income	0.0	0.0	0.0	0.0
Underlying EBIT	**27.3**	**32.2**	**35.7**	**39.0**
Share-based costs	-1.5	-1.5	-1.5	-1.5
Exceptional items	4.4	-5.3	0.0	0.0
Statutory EBIT	30.2	25.5	34.3	37.5
Net interest	-2.4	-3.3	-3.1	-2.4
Other financials	0.6	0.1	0.1	0.1
Underlying pre-tax profit	**24.8**	**28.9**	**32.7**	**36.6**
Extraordinary items	0.0	0.0	0.0	0.0
Statutory pre-tax profit	*28.4	*22.3	31.3	35.2
Underlying tax	-4.8	-5.8	-6.5	-7.3
Tax rate	19%	20%	20%	20%
Exceptional tax	5.3	0.0	0.0	0.0
Tax payable/credit	0.5	-5.8	-6.5	-7.3
Underlying net income	**20.1**	**23.1**	**26.1**	**29.3**
Statutory net income	28.9	16.5	24.7	27.9
Ordinary 1p shares:				
Weighted average (m)	473.8	496.5	515.1	515.1
Underlying basic EPS (p)	**4.24**	**4.66**	**5.07**	**5.68**
Statutory basic EPS (p)	6.10	3.32	4.80	5.41

** After inclusion of non-underlying items: £4.4m in 2017 and -£5.3m in 2018*
Underlying numbers exclude exceptional items and share-based payments
Source: Hardman & Co Life Sciences Research

Financials and investment case

Profit & Loss

- **Sales:** The JNJ profit transfer, based on the net profit from Nizoral sales in the APAC region, will be included in APH's sales. Once this is known at the end of each quarter, APH will take a transaction hedge to cover the EUR amount.
- **EBITDA margin:** This will be variable over the forecast period, due to investment in launching Xonvea and the accounting of Nizoral during the TSA period.

Profit & Loss account

Year-end Dec (£m)	2015	2016	2017	2018E	2019E	2020E
GBP:EUR	1.284	1.223	1.141	1.130	1.130	1.130
GBP:USD	1.432	1.354	1.289	1.330	1.330	1.330
Product sales	48.3	97.5	101.3	114.2	124.5	136.5
Nizoral net contribution	-	-	-	3.5	7.0	7.3
Reported sales	48.3	97.5	101.3	117.7	131.5	143.8
Cost of goods	-19.6	-42.6	-42.4	-46.3	-50.0	-54.5
Gross profit	28.7	54.8	59.0	71.4	81.5	89.3
Admin & marketing	-15.6	-28.8	-31.7	-39.2	-45.7	-50.3
Underlying EBITDA	**13.6**	**26.7**	**28.2**	**33.6**	**37.4**	**40.6**
EBITDA margin	28.1%	27.4%	27.8%	28.5%	28.5%	28.3%
Reported EBITDA	17.5	26.0	31.1	26.9	36.0	39.2
Depreciation	-0.3	-0.3	-0.7	-1.2	-1.5	-1.5
Amortisation	-0.2	-0.1	-0.3	-0.2	-0.2	-0.2
Other income	0.0	0.0	0.0	0.0	0.0	0.0
Underlying EBIT	**13.3**	**26.3**	**27.3**	**32.2**	**35.7**	**39.0**
Share-based costs	-0.6	-0.7	-1.5	-1.5	-1.5	-1.5
Exceptional items	4.5	0.0	*4.4	**-5.3	0.0	0.0
Statutory EBIT	17.0	25.6	30.2	25.5	34.3	37.5
Net interest	-1.1	-2.8	-2.4	-3.3	-3.1	-2.4
Other financials	-0.7	-0.6	0.6	0.1	0.1	0.1
Underlying pre-tax profit	**12.2**	**23.5**	**24.8**	**28.9**	**32.7**	**36.6**
Extraordinary items	0.0	0.0	0.0	0.0	0.0	0.0
Statutory pre-tax profit	15.2	22.2	*28.4	**22.3	31.3	35.2
Underlying tax	-1.4	-4.9	-4.8	-5.8	-6.5	-7.3
Underlying tax rate	11.3%	20.7%	19.1%	20.0%	20.0%	20.0%
Exceptional tax	-1.1	0.8	5.3	0.0	0.0	0.0
Tax payable/credit	-2.5	-4.1	0.5	-5.8	-6.5	-7.3
Underlying net income	**10.8**	**18.7**	**20.1**	**23.1**	**26.1**	**29.3**
Statutory net income	12.7	18.1	*28.9	**16.5	24.7	27.9
Ordinary 1p shares:						
Period-end (m)	468.2	472.6	475.0	515.1	515.1	515.1
Weighted average (m)	272.7	469.4	473.8	496.5	515.1	515.1
Fully-diluted (m)	299.2	505.0	513.7	536.4	555.0	555.0
Underlying basic EPS (p)	**3.97**	**3.98**	**4.24**	**4.66**	**5.07**	**5.68**
Statutory basic EPS (p)	4.65	3.85	*6.10	**3.32	4.80	5.41
Underlying fully-dil. EPS (p)	3.62	3.70	3.91	4.31	4.71	5.27
Statutory fully-dil. EPS (p)	4.24	3.58	*5.63	**3.07	4.46	5.02
DPS (p)	1.10	1.21	1.33	1.46	1.61	1.77

**Includes £5.0m warranty settlement for Kelo-stretch*

*** Includes £1.5m profit on disposal of Unigreg JV, £2.5m impairment charge & receivables provision for Synthasia JV and £4.3m impairment charge for anti-malarial products*

Underlying numbers exclude exceptional items and share-based payments

Source: Hardman & Co Life Sciences Research

Balance sheet

- **Intangible assets:** Nizoral will be included at cost on the balance sheet as part of the intangibles, and will be subject to annual impairment tests in line with APH's policy.
- **Leverage:** At the point of closing the deal with JNJ, management indicated that leverage would be 2.5x. Management anticipates that net debt/EBITDA will be broadly flat, at 2.5x, at the year-end, due to the anticipated stock build for FMD and Brexit, and the launch costs for Xonvea.

Balance sheet

@31 Dec (£m)	2015	2016	2017	2018E	2019E	2020E
Shareholders' funds	162.4	179.3	203.4	246.3	262.7	281.5
Cumulated goodwill	26.0	26.0	26.0	26.0	26.0	26.0
Total equity	188.5	205.3	229.4	272.3	288.8	307.5
Share capital	4.7	4.7	4.8	5.2	5.2	5.2
Reserves	157.8	174.5	198.6	241.2	257.6	276.4
Provisions/liabilities	1.5	1.7	3.4	3.4	3.4	3.4
Deferred tax	37.0	29.7	24.7	24.7	24.7	24.7
Long-term loans	59.0	57.6	41.8	55.2	45.7	37.4
Short-term debt	15.8	25.8	41.7	41.7	32.2	23.9
less: Cash	3.2	7.2	11.2	11.2	11.2	11.2
Invested capital	**272.5**	**286.8**	**303.9**	**360.2**	**357.7**	**359.8**
Fixed assets	1.0	1.8	3.4	3.7	3.3	3.0
Intangible assets	233.9	238.5	252.6	312.6	312.6	312.6
JV assets	2.9	2.9	2.9	0.0	0.0	0.0
Goodwill	26.0	26.0	26.0	26.0	26.0	26.0
Inventories	12.9	15.4	14.2	20.1	16.9	18.5
Trade debtors	8.8	20.5	*17.3*	*24.7*	*27.7*	*30.4*
Other debtors	2.8	6.2	*6.3*	*7.4*	*8.2*	*9.0*
Tax liability/credit	-2.1	-2.5	*-2.4*	*-2.6*	*-2.7*	*-2.8*
Trade creditors	-1.2	-5.7	*-6.7*	*-7.3*	*-7.9*	*-8.6*
Other creditors	-12.7	-16.3	*-9.9*	*-24.4*	*-26.5*	*-28.3*
Debtors less creditors	-4.3	2.2	4.7	-2.2	-1.1	-0.3
Invested capital	**272.5**	**286.8**	**303.9**	**360.2**	**357.7**	**359.8**

Source: Hardman & Co Life Sciences Research

Key metrics

Year-end Dec (£m)	2015	2016	2017	2018E	2019E	2020E
Net cash/(debt)	**-71.5**	**-76.1**	**-72.3**	**-85.7**	**-66.8**	**-50.1**
Net debt/EBITDA (x)	5.3	2.8	2.6	2.5	1.8	1.2
Net debt/equity (%)	-38%	-37%	-32%	-31%	-23%	-16%
NAV/share (p)	35	38	43	48	51	55
Stock days	71	53	53	53	51	45
Debtor days	58	77	68	65	73	74
Creditor days	57	48	57	57	57	57
Interest cover (x)	11.0	9.2	9.1	9.5	11.5	16.3
Dividend cover (x)	3.6	3.3	3.2	3.2	3.1	3.2
Capex/depreciation (x)	2.7	3.4	3.4	1.3	0.7	0.8
NOPAT	11.8	20.9	17.6	25.8	28.6	31.2
After-tax ROIC	4.3%	7.3%	5.8%	7.2%	8.0%	8.7%
Capex/sales	1.3%	1.2%	2.2%	1.3%	0.8%	0.8%

Source: Hardman & Co Life Sciences Research

Cashflow

- **Consideration:** The cash consideration of £60.0m was part-funded by the Placing of shares, which raised net new funds of £32.1m. The remainder was paid with new debt.
- **Amortisation:** There will be no change to the amortisation charge, as the full purchase cost of Nizoral will be held on the balance sheet and, consistent with other intangibles, it will be subject to annual impairment tests in line with APH's stated policy.
- **Dividend costs:** The increase in the number of shares in issue to pay for Nizoral will increase accrued dividend costs by £0.55m in 2018, which will be paid during calendar 2019.

Cashflow

Year-end Dec (£m)	2015	2016	2017	2018E	2019E	2020E
Underlying EBIT	13.3	26.3	27.3	32.2	35.7	39.0
Depreciation	0.2	0.3	0.7	1.2	1.5	1.5
Amortisation	0.2	0.1	0.3	0.2	0.2	0.2
Inventories	*-7.0*	*-2.4*	*1.1*	*-5.8*	*3.2*	*-1.6*
Receivables	*2.3*	*-14.1*	*4.0*	*-7.3*	*-3.1*	*-2.6*
Payables	*-3.3*	*10.1*	*-3.0*	*2.6*	*0.6*	*0.7*
Change in working capital	-8.0	-6.5	2.1	-10.5	0.7	-3.5
Exceptionals/provisions	4.5	0.0	4.0	1.0	0.0	0.0
Other	-0.3	-0.3	0.5	0.0	0.0	0.0
Cashflow from operations	**9.9**	**20.0**	**34.9**	**24.1**	**38.1**	**37.2**
Net interest	-1.0	-3.0	-2.6	-3.3	-3.1	-2.4
Tax paid/received	-1.9	-3.0	-3.7	-3.7	-6.4	-6.7
Operational cashflow	**7.0**	**13.9**	**28.6**	**17.1**	**28.6**	**28.1**
Capital expenditure	-0.6	-1.1	-2.2	-1.5	-1.0	-1.2
Capitalised R&D	0.0	-0.3	-0.5	-0.1	-0.1	-0.1
Sale of fixed assets	0.0	0.0	0.0	0.0	0.0	0.0
Free cashflow	**6.4**	**12.5**	**25.9**	**15.5**	**27.5**	**26.8**
Acquisitions	-133.9	-6.0	-17.5	-60.0	-1.5	-1.9
Disposals	0.0	0.0	0.0	2.4	0.5	0.0
Dividends	-2.6	-5.2	-5.4	-6.7	-7.5	-8.3
Other investments	0.0	-1.0	0.2	0.0	0.0	0.0
Cashflow after invests.	**-130.1**	**0.3**	**3.1**	**-48.8**	**19.0**	**16.7**
Share repurchases	0.0	0.0	0.0	0.0	0.0	0.0
Capital increases	79.8	1.3	0.7	33.9	0.0	0.0
Currency effect	-0.1	-6.2	0.0	0.0	0.0	0.0
Change in net debt	**-50.4**	**-4.6**	**3.8**	**-13.4**	**19.0**	**16.7**
Opening net cash/(debt)	-21.1	-71.5	-76.1	-72.3	-85.7	-66.8
Closing net cash/(debt)	**-71.5**	**-76.1**	**-72.3**	**-85.7**	**-66.8**	**-50.1**
Hardman FCF/share (p)	2.3	2.7	5.5	3.1	5.3	5.2

Source: Hardman & Co Life Sciences Research

Valuation

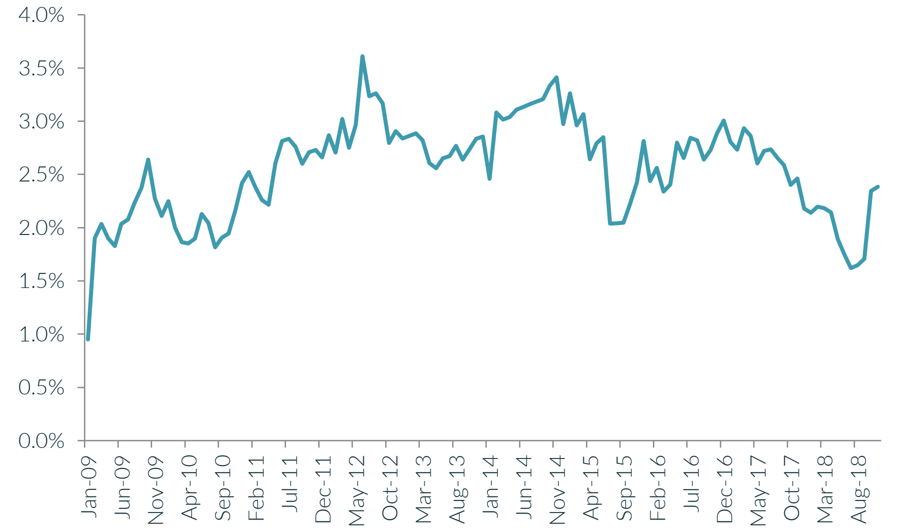
APH is currently trading on a 2018E PE of 15.4x, falling to 14.1x in 2019E which includes a full 12-month contribution from the Nizoral acquisition, with an underlying CAGR EPS 2017-20E of ca.10%. However, this includes the establishment of its US operation, the launch investment in Xonvea in both the UK and the EU, and the 'depleted' profit contribution from Nizoral during the TSA period. The prospective dividend yield is 2.0%, with a progressive dividend policy that is currently covered 3.2x.

APH is generating ROIC of 8%-9%, with some of the free cashflow being reinvested into product acquisitions, as evidenced recently with Ametop and Vamousse. We forecast underlying free cashflow to be in the range of £25.0m-£30.0m when full contributions from Nizoral are included, which will be used primarily to pay down borrowings, or to fund small, bolt-on acquisitions.

EV/EBITDA (prospective 12 months)

Source: Hardman & Co Life Sciences Research

Dividend yield (prospective 12 months)



Source: Hardman & Co Life Sciences Research

Company matters

Registration

Incorporated in England and Wales with company registration number: 04241478

UK Headquarters:
Avonbridge House
Bath Road
Chippenham
Wiltshire
SN15 2BB

+44 1249 466 966

www.alliancepharmaceuticals.com

Board of Directors

Board of Directors

Position	Name	Nominations	Remuneration	Audit
Chairman	David Cook	M	M	C
Chief Executive Officer	Peter Butterfield			
Chief Financial Officer	Andrew Franklin			
Non-executive director	Nigel Clifford	C	C	M
Non-executive director	John Dawson	M		

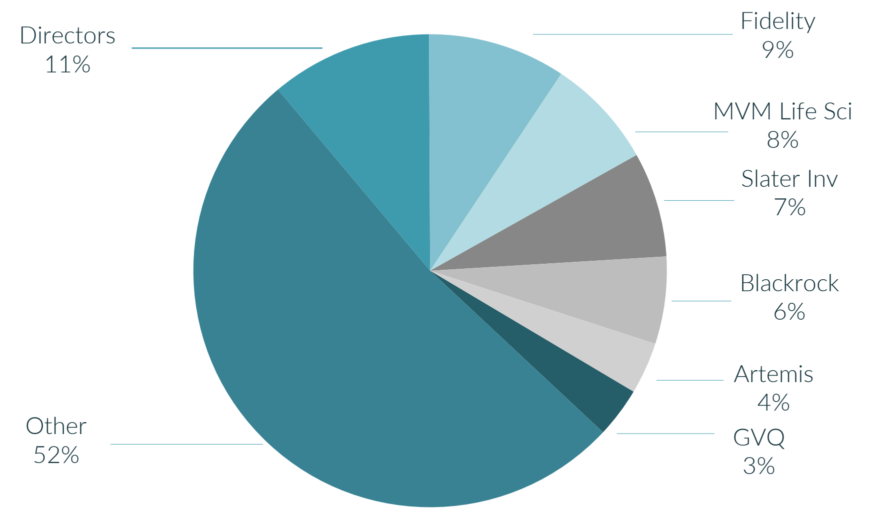
M = member; C = chair
Source: Company reports

Share capital

Number of Ordinary shares in issue on 2 November 2018: 515,127,294.

Number of options outstanding: 39.90 million

Shareholders



Source: Company announcements, Hardman & Co Life Sciences Research

Disclaimer

Hardman & Co provides professional independent research services and all information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable. However, no guarantee, warranty or representation, express or implied, can be given by Hardman & Co as to the accuracy, adequacy or completeness of the information contained in this research and they are not responsible for any errors or omissions or results obtained from use of such information. Neither Hardman & Co, nor any affiliates, officers, directors or employees accept any liability or responsibility in respect of the information which is subject to change without notice and may only be correct at the stated date of their issue, except in the case of gross negligence, fraud or wilful misconduct. In no event will Hardman & Co, its affiliates or any such parties be liable to you for any direct, special, indirect, consequential, incidental damages or any other damages of any kind even if Hardman & Co has been advised of the possibility thereof.

This research has been prepared purely for information purposes, and nothing in this report should be construed as an offer, or the solicitation of an offer, to buy or sell any security, product, service or investment. The research reflects the objective views of the analyst(s) named on the front page and does not constitute investment advice. However, the companies or legal entities covered in this research may pay us a fixed fee in order for this research to be made available. A full list of companies or legal entities that have paid us for coverage within the past 12 months can be viewed at http://www.hardmanandco.com/legals/research-disclosures. Hardman may provide other investment banking services to the companies or legal entities mentioned in this report.

Hardman & Co has a personal dealing policy which restricts staff and consultants' dealing in shares, bonds or other related instruments of companies or legal entities which pay Hardman & Co for any services, including research. No Hardman & Co staff, consultants or officers are employed or engaged by the companies or legal entities covered by this document in any capacity other than through Hardman & Co.

Hardman & Co does not buy or sell shares, either for their own account or for other parties and neither do they undertake investment business. We may provide investment banking services to corporate clients. Hardman & Co does not make recommendations. Accordingly, they do not publish records of their past recommendations. Where a Fair Value price is given in a research note, such as a DCF or peer comparison, this is the theoretical result of a study of a range of possible outcomes, and not a forecast of a likely share price. Hardman & Co may publish further notes on these securities, companies and legal entities but has no scheduled commitment and may cease to follow these securities, companies and legal entities without notice.

The information provided in this document is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject Hardman & Co or its affiliates to any registration requirement within such jurisdiction or country.

Some or all alternative investments may not be suitable for certain investors. Investments in small and mid-cap corporations and foreign entities are speculative and involve a high degree of risk. An investor could lose all or a substantial amount of his or her investment. Investments may be leveraged and performance may be volatile; they may have high fees and expenses that reduce returns. Securities or legal entities mentioned in this document may not be suitable or appropriate for all investors. Where this document refers to a particular tax treatment, the tax treatment will depend on each investor's particular circumstances and may be subject to future change. Each investor's particular needs, investment objectives and financial situation were not taken into account in the preparation of this document and the material contained herein. Each investor must make his or her own independent decisions and obtain their own independent advice regarding any information, projects, securities, tax treatment or financial instruments mentioned herein. The fact that Hardman & Co has made available through this document various information constitutes neither a recommendation to enter into a particular transaction nor a representation that any financial instrument is suitable or appropriate for you. Each investor should consider whether an investment strategy of the purchase or sale of any product or security is appropriate for them in the light of their investment needs, objectives and financial circumstances.

This document constitutes a 'financial promotion' for the purposes of section 21 Financial Services and Markets Act 2000 (United Kingdom) ('FSMA') and accordingly has been approved by Capital Markets Strategy Ltd which is authorised and regulated by the Financial Conduct Authority (FCA).

(Disclaimer Version 8 – Effective from August 2018)

Status of Hardman & Co's research under MiFID II

Some professional investors, who are subject to the new MiFID II rules from 3rd January, may be unclear about the status of Hardman & Co research and, specifically, whether it can be accepted without a commercial arrangement. Hardman & Co's research is paid for by the companies, legal entities and issuers about which we write and, as such, falls within the scope of 'minor non-monetary benefits', as defined in the Markets in Financial Instruments Directive II.

In particular, Article 12(3) of the Directive states: 'The following benefits shall qualify as acceptable minor non-monetary benefits only if they are: (b) 'written material from a third party that is commissioned and paid for by a corporate issuer or potential issuer to promote a new issuance by the company, or where the third party firm is contractually engaged and paid by the issuer to produce such material on an ongoing basis, provided that the relationship is clearly disclosed in the material and that the material is made available at the same time to any investment firms wishing to receive it or to the general public…'

The fact that Hardman & Co is commissioned to write the research is disclosed in the disclaimer, and the research is widely available.

The full detail is on page 26 of the full directive, which can be accessed here: http://ec.europa.eu/finance/docs/level-2-measures/mifid-delegated-regulation-2016-2031.pdf

In addition, it should be noted that MiFID II's main aim is to ensure transparency in the relationship between fund managers and brokers/suppliers, and eliminate what is termed 'inducement', whereby free research is provided to fund managers to encourage them to deal with the broker. Hardman & Co is not inducing the reader of our research to trade through us, since we do not deal in any security or legal entity.

research@hardmanandco.com

35 New Broad Street
London
EC2M 1NH

+44(0)20 7194 7622

www.hardmanandco.com