ALLIANCE

Transformed for growth

Alliance Pharma plc

Half Year Report 2017

Alliance Pharma plc is an AIM quoted specialty pharmaceutical company

Alliance, commencing trading in 1998, is an international specialty pharma company headquartered in Chippenham, Wiltshire, UK.

Our core presence is in Western Europe, but our products reach more than 100 countries via direct sales, joint ventures and a network of distributors.

Our expertise lies in marketing, and all the associated business and regulatory activities. We outsource capital-intensive processes such as manufacturing and distribution to specialist providers.

By acquisition, we have built up a portfolio of over 90 pharmaceutical and consumer healthcare products, specialising in dermatology, mother and child and ophthalmology.

Revenue
£50.3m
+8%

Interim dividend
0.443p
+10%

Free Cash Flow
£11.1m
+£9.0m

EBITDA*
£13.6m
+3%

Financial Highlights

> Revenue up 8% to £50.3m (H1 2016: £46.4m)
  – Kelo-cote up 52% to £6.2m (H1 2016: £4.1m)
  – MacuShield up 67% to £3.4m (H1 2016: £2.0m)

> EBITDA* up 3% to £13.6m (H1 2016: £13.2m)

> Free cash flow (excluding Sinclair settlement)* up £9.0m to £11.1m (H1 2016: £2.1m)
  – Working capital normalisation following the Sinclair Healthcare Products acquisition

> Leverage (adjusted net debt to EBITDA ratio) of 2.4 times (31 December 2016: 2.8 times)

> Net debt* reduced by £12.7m to £63.4m (H1 2016: £76.1m)

> Interim dividend up 10% to 0.443p (H1 2016: 0.403p)

* See note 15

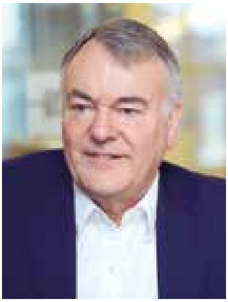
"Following a transformational 2016, the business has performed well in the first half of 2017. With the integration of the Sinclair Pharma products now complete we are strategically positioned for growth and, with leverage levels reducing, we are now able to pursue bolt-on acquisitions."

Andrew Smith
Independent Non-Executive Chairman

Chairman's and Chief Executive's Statement

The investment we have made in our international growth brands has yielded promising results.

Andrew Smith
Independent
Non-Executive Chairman



John Dawson
Executive Director,
Chief Executive Officer

Operational Highlights

- > **Strong growth** from our international brands, Kelo-cote and MacuShield, underlining the **exciting potential** of these products
- > Infrastructure and management teams developed and strengthened, **supporting continued growth** and acquisitions
- > **Strong cash generation** with leverage continuing its reduction profile, on current trends, to 2 times by year-end

Trading performance

Sales for the six months ended 30 June 2017 were £50.3m, 8% higher than the same period last year (H1 2016: £46.4m). Underlying profit before tax was £11.9m (H1 2016: £11.7m) and, including the Sinclair compensation, the reported profit before tax was £16.9m (H1 2016: £11.7m).

Exchange rate movements boosted revenues for the half year by £2.6m (equivalent to 5 percentage points of revenue growth) as Sterling weakened against both the Euro and the Dollar relative to the rates for the same period last year. The impact on profit before tax was significantly lower, due to the greater proportion of cost of goods and operating costs denominated in these currencies.

The investment we have made in our international growth brands has yielded promising results. Sales of Kelo-cote, our scar reduction product, increased by 52% to reach £6.2m (H1 2016: £4.1m) across its markets. MacuShield, for age-related macular degeneration, also performed well, seeing a 67% increase in revenues to £3.4m (H1 2016: £2.0m). This has been driven by a combination of distribution gains in new territories and growth in the rates of sale in existing outlets, stimulated by our increased marketing investment.

Overall, our trading performance has been in line with the Board's expectations, and sets us up well for the second half of the year.

Diclectin

As stated in our announcement in July 2017, the Medicine and Healthcare products Regulatory Agency ("MHRA") did not approve Diclectin, a treatment for nausea and vomiting of pregnancy, for the UK which was unexpected. Our regulatory team has now had time to work with Duchesnay Inc. of Canada ("Duchesnay"), the licensor and marketing authorisation applicant, to better understand the approach taken by the MHRA. Whilst the communication between the MHRA and Duchesnay remains confidential, we believe there are grounds to re-open discussions. There is no financial impact of this decision at this time.

Diclectin is a much-needed product as there is no licensed medicine for treating nausea and vomiting of pregnancy in the UK. At this stage we expect these discussions to continue well into 2018 and, in the meantime, we will re-direct our commercial resources to other important growth projects within Alliance.

UK

We generated revenues of £25.2m (H1 2016: £24.5m), representing overall growth of 3%.

MacuShield recorded strong sales of £2.7m, a 98% increase of £1.3m over H1 2016 (H1 2016: £1.4m). The product continues to benefit from our promotional activities in the ophthalmic and consumer healthcare arenas.

MacuShield recorded strong global sales of £3.4m, a 67% increase on H1 2016

Hydromol sales were £3.4m, representing a 4% decline compared with H1 2016, most of which was due to non-availability of the Hydromol Intensive presentation, which has recently returned to supply, although the emollient market has declined slightly over the past six months.

Our consumer products group (Anbesol, Ashton & Parsons, and Lypsyl) achieved sales totalling £2.2m, a decline of 3%, caused by volatility within the buying patterns of the major retailers. There have been good distribution gains for Ashton & Parsons Infants' Powders, with new and expanded listings including, most recently, Morrisons, both in-store and online. The brand has a sound distribution platform in place ahead of further promotional campaigns planned for the second half of the year, which positions it well for future growth. Lypsyl also saw pleasing growth, following a product redesign and reformulation, and is beginning to respond to promotional focus. The Board still believes there to be significant brand value to extract despite the underinvestment prior to our ownership. The remainder of our UK portfolio achieved sales of £16.9m, showing a small decline of 3% although sales are expected to improve in the second half of the year.

Chairman's and Chief Executive's Statement continued

Western Europe

Revenues for Western Europe (excluding the UK) showed a modest improvement to £12.6m for the half year (H1 2016: £11.7m). In France, our largest affiliate outside the UK, sales grew 7% to £4.8m, benefiting from a stronger Euro, with sales in local currency showing a slight (-4%) decline. The sales team has now started to focus on selling Kelo-cote directly, having repatriated the distribution agreement from Recordati in March this year. The DACH (Germany, Austria and Switzerland) region was up 14% in reportable currency, up 4% in constant currency, and continues to perform solidly and in line with expectations. Spain and Italy are predominantly driven by Aloclair, our treatment for mouth ulcers. Spain ended the first six months significantly ahead, up 18% on a constant currency basis at £1.7m, benefiting from Aloclair, which continues to grow well in market. Kelo-cote also performed well, driven by sales in Portuguese private hospitals. In Italy, our smallest affiliate, sales were up 9% in reportable currency but down 2% on a constant currency basis at £1.4m. The repatriation of Kelo-cote distribution agreements has successfully taken place in France, Germany and Italy. Overall, the pan-European structure has now been completed and is well placed for further acquisitions.

International

The International side of the business performed very well in the first half, with revenues up 23% in reportable currency and 9% in constant currency. Strong performances from our lead brand Kelo-cote in the Asia Pacific region, and in China particularly, along with our Central European business have more than made up for a slightly weaker than anticipated performance in the Middle East and Africa region where the business has been subject to uneven distributor ordering patterns. The transition of the Sinclair distributor business has been embedded smoothly into our Paris office with most distributors now transferred into Alliance. In the first half of the year we have also taken the opportunity to re-organise our Chinese business behind our Nutraceuticals portfolio, which continues to perform well.

Financial review

Group Performance

Sales in the first half of 2017 grew by £3.9m (+8%) to £50.3m (H1 2016: £46.4m) following the solid performance of our international growth brands Kelo-cote and MacuShield. The gross margin achieved of 57.6%, resulting in a gross profit of £29.0m, was 1.6 percentage points higher than the comparative period (H1 2016: 56.0%, £26.0m) and reflects an improving sales mix.

Administration and marketing expenses for the half year increased by £2.2m (H1 2017: £15.1m, H1 2016: £12.9m) and were broadly in line with spend in the second half of last year (H2 2016: £15.9m). The increase on the same period last year is due to the full-year effect of the ex-Sinclair products' cost base and increased promotional support given to our key growth brands.

Earnings before interest, taxes, depreciation and amortisation (EBITDA), defined as Operating Profit excluding non-underlying items (including share of Joint Venture profit) less Depreciation and Amortisation, was £13.6m (H1 2016: £13.2m), representing an overall margin of 27.1% of sales.

As announced on 21 March 2017, the Group reached agreement with Sinclair Pharma plc in connection with the material reduction of business in Kelo-stretch, which was acquired in 2015. The terms of the compensation agreement were a £4.0m cash payment to Alliance (received in April 2017) and a further £1.0m cash receipt to be paid on or before 30 June 2018. The total compensation of £5.0m is recognised as a non-underlying exceptional income in the Income Statement.

Interest costs in the six-month period reduced to £1.5m (H1 2016: £1.7m). This is as a result of the reduction in overall net debt, partially offset by the translation effect of the Euro and US Dollar denominated interest into a weaker Sterling.

Sales in the first half of 2017 grew by £3.9m (+8%) to £50.3m

Underlying profit before tax increased to £11.9m (H1 2016: £11.7m).

The underlying tax charge for the period of £2.6m is based upon the prevailing tax rates in the relevant countries and equates to an effective tax rate (ETR) of 21.8%, in line with the Group's forecasted underlying tax rate of 22%. The ETR for the prior period of 18.5% had benefited from the planned reduction in the UK corporation tax rate on our deferred tax balances.

Basic adjusted earnings per share (EPS) for the six months was 1.97p (H1 2016: 2.04p), and including non-underlying items was 2.84p (H1 2016: 2.04p). Adjusting for the Group's underlying ETR of 21.8% in H1 2017, the basic adjusted EPS for the prior period would have been 1.96p.

Cash flow and net debt

Demonstrating the strongly cash generative nature of the Group, free cash flow (defined as cash generated from operating activities excluding non-underlying items less interest, tax and capital expenditure) generated in the first half was £11.1m and a significant improvement on the same period last year (H1 2016: £2.1m) which was adversely affected by the build-up of working capital following the Sinclair Healthcare Products acquisition. Free cash flow in the period was ahead of the cash generated in the second half of last year of £10.9m. As a result, cash and cash equivalents increased £1.8m to £9m as at 30 June 2017 (H1 2016: £7.2m).

Inventory was held broadly level with last year at £15.2m (H1 2016: £15.4m), however we expect a modest increase towards the end of 2017 as a result of certain strategic inventory builds to secure supply.

Net debt reduced to £63.4m as at 30 June 2017 (31 December 2016: £76.1m), due largely to the Group's strong cash generation as well as the £4.0m compensation received from Sinclair and a foreign exchange benefit of approximately £1.0m. Our adjusted net debt/EBITDA ratio as at 30 June 2017 was 2.4 times (31 December 2016: 2.8 times), against our covenant limit of 2.75 times (31 December 2016: 3.0 times). We continue to anticipate that leverage will reduce, on current trends, to around 2.0 times by the end of the year.

Chairman's and Chief Executive's Statement continued

Revenue: Kelo-cote

£6.2m

+52%

Revenue: MacuShield

£3.4m

+67%

Leverage
(adjusted net debt to EBITDA ratio)

x2.4

Net debt*

£63.4m

-£12.7m

* See note 15

The Group has total bank facilities of £100m of which £55.4m (31 December 2016: £66.5m) remains drawn on the Term Loan with £18.0m (31 December 2016: £18.0m) currently utilised from the Revolving Credit Facility (RCF). In addition to this, the Group also has access to a £4.5m working capital facility, which was largely undrawn at 30 June 2017, and an additional undrawn £25m facility available with bank approval.

Dividend

In line with our strong cash generation in the first half of 2017, we are making an interim payment of 0.443p (H1 2016: 0.403p). This represents an increase of 10% on last year's figure while maintaining dividend cover at 3 times adjusted earnings.

The interim dividend will be paid on 11 January 2018 to shareholders on the register on 22 December 2017.

Strategy

Our strategy for growth remains two-fold. We drive organic growth in selected brands via targeted marketing investment and we seek additional growth from bolt-on acquisitions. This strategy is in effect a buy and grow strategy.

Our marketing investment concentrates on two International Star brands, Kelo-cote and MacuShield, which benefit from a global strategy developed centrally and adapted locally in each market. Additionally we have national growth brands, known as Local Heroes which are very important to individual countries and whose marketing strategy is driven locally.

Kelo-cote

Kelo-cote is our largest and fastest growing brand and has global reach, now selling in 65 countries. Compared with H1 2016, sales grew by £2.1m to £6.2m in the first half of 2017. Kelo-cote is a silicone gel for the treatment of scars. Silicon gels are well established as the first line treatment in scar management. Kelo-cote is the most technically advanced product in this class and, through its unique patented formula, is the quickest drying silicone gel on the market. In this fast growing market this important benefit gives us a competitive advantage that is appreciated by clinicians and users alike. We have global rights, outside of the US.

We have recently strengthened our management of the brand by the appointment of an experienced global marketing head who will focus on developing both the brand's strategy and relationships with key global opinion leaders. Alliance was the lead sponsor at this year's Scar Club conference in Montpellier in June, which was attended by leaders in the scar management field. We continue to work on new product development and line extensions for the Kelo-cote brand to help reinforce its position as a professionally endorsed specialist product.

The Asia-Pacific region continues to perform well with sales progressing ahead of expectations

The Asia-Pacific region continues to perform well with sales progressing ahead of expectations, via our network of local distribution partners, with China, Kelo-cote's largest market, developing particularly well. In Europe, where we have developed our own infrastructure in the major EU countries, we are in the process of repatriating the distribution agreements both to give us more control over the marketing of the brand and to improve margins. Discussions are well underway for the launch of the product into some new markets.

MacuShield

MacuShield is a dietary supplement of macular pigments for slowing the progression of age-related macular degeneration (AMD). It can also aid visual performance, improving contrast sensitivity in situations where there is high glare – such as night driving. It currently sells in 17 markets and we have global rights, outside of the Americas and the Caribbean.

In the first half of 2017, sales grew by £1.4m to £3.4m, compared with the same period in 2016. MacuShield is at an earlier phase of its international development with sales in the UK and Ireland developing well to £2.9m, compared with £1.7m in the first half of 2016. In the UK our presence in Boots has increased with a further 800 stores taking the MacuShield Gold presentation and better in-store positioning. Our marketing strategy is two-pronged with our retail and consumer activities run in parallel with communications to ophthalmologists via our medical sales team.

MacuShield growth has been further bolstered by good performances in some of the newer European territories, including Romania, Serbia and Greece where sales are growing as our distributors roll out the brand through their respective routes to market. We have also used our newly formed International team to negotiate MacuShield into new distributors outside of Europe, and the first six months of the year have seen three new distributors signed in Israel, Lebanon and Pakistan, with several others in discussion.

Chairman's and Chief Executive's Statement continued

National growth products (Local Heroes)

As a large part of Alliance's historic growth has been by acquisition, we have several products that are important in only one or a limited number of countries and which are not part of our global strategy. Some of these have growth potential that respond to marketing investment in an economic way and are managed locally. Examples are Aloclair in Spain and Italy, Hydromol in the UK and the UK group of consumer products (Anbesol, Ashton & Parsons and Lypsyl).

Bedrock

Very important to our strategy is the existence within our portfolio of a bedrock of well-established products that require minimal promotional efforts to maintain meaningful sales. These products constitute approximately 50% of total group revenues and provide a reliable source of cash flow that can be used for marketing investment elsewhere in the portfolio, or to fund further bolt-on acquisitions. These products cover a wide range of therapy areas as promotional synergies are not a prerequisite.

Acquisitions

In addition to organic growth, bolt-on acquisitions have been and will continue to be an important source of growth. We acquire products where we can see a good history of stable sales and therefore this element of our strategy is relatively low risk. From larger pharmaceutical companies, we tend to acquire very well established products that are no longer core to those organisations. From smaller entrepreneurial companies we tend to acquire growing products that have been developed, launched and established, but whose further growth requires a larger organization with a broader distribution footprint.

Following the integration of the transformational acquisition of the pharma products from Sinclair Pharma, and as our leverage levels reduce, we are now in a position to re-commence our activity of securing bolt-on acquisitions as and when attractive opportunities arise. Our expanded infrastructure enables us to take advantage of opportunities across a wider range of territories. Similarly we shall keep a watch for in-licensing opportunities that could be exploited via our expanded infrastructure, although these are less available than bolt-on acquisitions, where several interesting opportunities are currently under evaluation.

Appointment of Second Broker

As we are now an enlarged group we have appointed a second broker, Investec Bank plc, to work alongside Numis Securities Limited, our Nominated Adviser and broker.

People & Infrastructure

Recent promotions, accompanied by the appointment of external talent, have rounded out the management structure required to achieve our growth ambition.

Peter Butterfield was appointed Chief Operating Officer in June, to add to his Deputy CEO duties. The change in role signals a sharing of responsibilities with CEO John Dawson, who can now focus more on outward-facing initiatives.

In addition to this and other internal promotions, we made several key appointments of external candidates. Chris Delafield joined us from Sanofi as the new Global Marketing Head for Kelo-cote, Matthew Toms joined as Head of Supply Chain from Refresco UK, Dr. Verity Rawson joined as Medical Affairs Manager from Merck, and we have brought our commercial legal function in-house with the appointment of Chris Chrysanthou from Fladgate LLP.

Our office infrastructure was completed with the refurbishment of our Chippenham head office to provide a more effective working environment.

In 2016 we took the decision to invest in a new enterprise resource planning system to streamline our processes, which will bring the legacy Alliance Pharma and Sinclair systems onto a single integrated platform that will cover all of our financial and supply chain planning and fulfilment activities. Following a review of external providers, we selected Microsoft Dynamics as our system of choice, and it is on target to be operational across the business in mid-2018.

Charity

We strive to make a contribution to the community and, with our employees, are strong fundraising supporters, recently raising £30,000 for Sands, the stillbirth and neonatal death charity, through activities across the Company including sponsored walks and a 250 mile cycle ride between our Paris and Chippenham offices. We also have a long established relationship with International Health Partners, to which we donate products for distribution to health practitioners in the world's neediest areas.

Outlook

With the physical and management infrastructure we now have in place and the encouraging financial performance achieved to date from our targeted investments, we see scope for continued organic growth. We anticipate that this will be driven by our international growth brands Kelo-cote and MacuShield as well as our local hero brands, funded by the cash generated by these and our bedrock products that require little or no promotional investment. We will supplement our organic growth with bolt-on acquisitions as and when suitable candidates arise that will add value to the Group. Our European footprint, diversified portfolio and strong management team also provide a sound foundation for attracting in-licensing opportunities, which we will evaluate alongside product acquisitions.

We continue to monitor the landscape in relation to Brexit where we would advocate a frictionless outcome as regards cross-border trading, medicines regulation, adequate freedom of movement and access to specialised talent for the Group head office in the UK. There is uncertainty at this early stage of negotiation, however our balanced revenue base, pan-European infrastructure and nationally held EU licences will ensure our ability to trade in the EU market of the future.

Having delivered results in this period in line with expectations, and having a sound platform in place, we look forward to the second half and beyond with confidence.

Unaudited Consolidated Income Statement

For the six months ended 30 June 2017

	Note	Unaudited Six months ended 30 June 2017 Underlying £000s	Non-Underlying £000s (Note 5)	Total £000s	Unaudited Six months ended 30 June 2016 (See Note below) Total £000s
Revenue		50,310	–	50,310	46,372
Cost of sales		(21,331)	–	(21,331)	(20,392)
Gross profit		28,979	–	28,979	25,980
Operating expenses					
Administration and marketing expenses		(15,101)	–	(15,101)	(12,946)
Share-based employee remuneration		(704)	–	(704)	(404)
Share of Joint Venture profits		92	–	92	343
		(15,713)	–	(15,713)	(13,007)
Operating profit excluding exceptional item		13,266	–	13,266	12,973
Exceptional compensation income		–	5,000	5,000	–
Operating profit		13,266	5,000	18,266	12,973
Finance costs					
Interest payable and similar charges	4	(1,516)	–	(1,516)	(1,660)
Finance income	4	145	–	145	429
		(1,371)	–	(1,371)	(1,231)
Profit before taxation		11,895	5,000	16,895	11,742
Taxation	6	(2,595)	(850)	(3,445)	(2,169)
Profit for the year attributable to equity shareholders		9,300	4,150	13,450	9,573
Earnings per share					
Basic (pence)	11	1.97		2.84	2.04
Diluted (pence)	11	1.95		2.82	2.02

Note: The results for 2016 all relate to underlying trading performance

Unaudited Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2017

	Unaudited Six months ended 30 June 2017 £000s	Unaudited Six months ended 30 June 2016 £000s
Profit for the period	13,450	9,573
Other comprehensive income		
Items that may be reclassified to profit or loss:		
Interest rate swaps – cash flow hedge	158	(509)
Deferred tax on interest rate swaps	(32)	102
Foreign exchange translation differences	(939)	1,129
Total comprehensive income for the period	12,637	10,295

Unaudited Consolidated Balance Sheet

As at 30 June 2017

	Note	Unaudited 30 June 2017 £000s	Audited 31 December 2016 £000s
Assets			
Non-current assets			
Intangible assets	7	262,769	264,833
Property, plant and equipment		2,564	1,806
Joint Venture investment		1,650	1,464
Joint Venture receivable		1,462	1,462
Deferred tax asset		1,648	1,709
Other non-current assets		202	180
		270,295	271,454
Current assets			
Inventories		15,181	15,356
Trade and other receivables	8	24,339	26,706
Cash and cash equivalents		9,006	7,221
		48,526	49,283
Total assets		318,821	320,737
Equity			
Ordinary share capital		4,743	4,726
Share premium account		110,083	109,594
Share option reserve		4,010	3,306
Reverse takeover reserve		(329)	(329)
Other reserve		(193)	(319)
Translation reserve		1,169	2,108
Retained earnings		67,902	60,177
Total equity		187,385	179,263

	Note	Unaudited 30 June 2017 £000s	Audited 31 December 2016 £000s
Liabilities			
Non-current liabilities			
Long term financial liabilities	13	46,635	57,554
Other liabilities	10	1,826	1,817
Deferred tax liability		32,376	31,442
Derivative financial instruments		227	384
		81,064	91,197
Current liabilities			
Financial liabilities	13	25,819	25,782
Corporation tax		3,343	2,543
Trade and other payables	9	21,210	21,952
		50,372	50,277
Total liabilities		131,436	141,474
Total equity and liabilities		318,821	320,737

Unaudited Consolidated Statement of Cash Flows

For the six months ended 30 June 2017

	Unaudited Six months ended 30 June 2017 £000s	Unaudited Six months ended 30 June 2016 £000s
Operating activities		
Result for the period before tax	16,895	11,742
Interest payable	1,516	1,660
Other finance income	(145)	(429)
Exceptional income	(5,000)	–
Depreciation of property, plant and equipment	226	181
Amortisation of intangible assets	157	84
Share-based employee remuneration	704	404
Change in inventories	175	(3,306)
Change in investments	(92)	(343)
Change in trade and other receivables	3,392	(11,088)
Change in trade and other payables	(2,853)	7,429
Tax paid	(1,370)	(2,101)
Cash flows from operating activities	13,605	4,233
Investing activities		
Interest received	54	54
Deferred contingent consideration on acquisitions	(1,714)	(4,503)
Development costs capitalised	(265)	(46)
Purchase of property, plant and equipment	(984)	(325)
Purchase of other non-current assets	–	(203)
Settlement income	4,000	–
Loan to Joint Venture	(25)	–
Net cash used in investing activities	1,066	(5,023)

	Unaudited Six months ended 30 June 2017 £000s	Unaudited Six months ended 30 June 2016 £000s
Financing activities		
Interest paid and similar charges	(1,557)	(1,353)
Loan issue costs	–	(280)
Proceeds from exercise of share options	506	26
Dividend paid	(1,904)	(1,714)
Receipt from borrowings	–	4,500
Repayment of borrowings	(10,136)	(3,000)
Net cash used in financing activities	(13,091)	(1,821)
Net movement in cash and cash equivalents	1,580	(2,611)
Cash and cash equivalents at beginning of period	7,221	3,198
Effects of exchange rate movements	205	1,049
Cash and cash equivalents at end of period	9,006	1,636

Unaudited Consolidated Statement of Changes in Equity

For the six months ended 30 June 2017

	Ordinary Share capital £000s	Share Premium account £000s	Share Option reserve £000s	Reverse takeover reserve £000s	Other reserve £000s	Translation Reserve £000s	Retained earnings £000s	Total equity £000s
Balance 1 January 2016 (audited)	4,682	108,308	2,610	(329)	(98)	32	47,237	162,442
Issue of shares	2	24	–	–	–	–	–	26
Dividend payable/paid	–	–	–	–	–	–	(5,151)	(5,151)
Share options charge	–	–	404	–	–	–	–	404
Transactions with owners	2	24	404	–	–	–	(5,151)	(4,721)
Profit for the period	–	–	–	–	–	–	9,573	9,573
Other comprehensive income								
Interest rate swaps – cash flow hedge	–	–	–	–	(509)	–	–	(509)
Deferred tax on interest rate swaps	–	–	–	–	102	–	–	102
Foreign exchange translation differences	–	–	–	–	–	1,129	–	1,129
Total comprehensive income for the period	–	–	–	–	(407)	1,129	9,573	10,295
Balance 30 June 2016 (unaudited)	4,684	108,332	3,014	(329)	(505)	1,161	51,659	168,016

	Ordinary Share capital £000s	Share Premium account £000s	Share Option reserve £000s	Reverse takeover reserve £000s	Other reserve £000s	Translation Reserve £000s	Retained earnings £000s	Total equity £000s
Balance 1 January 2017 (audited)	4,726	109,594	3,306	(329)	(319)	2,108	60,177	179,263
Issue of shares	17	489	–	–	–	–	–	506
Dividend payable/ paid	–	–	–	–	–	–	(5,725)	(5,725)
Share options charge	–	–	704	–	–	–	–	704
Transactions with owners	17	489	704	–	–	–	(5,725)	(4,515)
Profit for the period	–	–	–	–	–	–	13,450	13,450
Other comprehensive income								
Interest rate swaps – cash flow hedge	–	–	–	–	158	–	–	158
Deferred tax on interest rate swaps	–	–	–	–	(32)	–	–	(32)
Foreign exchange translation differences	–	–	–	–	–	(939)	–	(939)
Total comprehensive income for the period	–	–	–	–	126	(939)	13,450	12,637
Balance 30 June 2017 (unaudited)	4,743	110,083	4,010	(329)	(193)	1,169	67,902	187,385

Notes to the Half Year Report

For the six months ended 30 June 2017

1. Nature of operations

Alliance Pharma plc ("the Company") and its subsidiaries (together "the Group") acquire, market and distribute pharmaceutical products. The company is a public limited company incorporated and domiciled in England. The address of its registered office is Avonbridge House, Bath Road, Chippenham, Wiltshire, SN15 2BB.

The company is listed on the London Stock Exchange, Alternative Investment Market (AIM).

2. General information

The information in these financial statements does not constitute statutory accounts as defined in section 434 of the Companies Act 2006 and is un-audited. These financial statements have been prepared in accordance with the AIM rules, and IAS 34 has not been adopted. A copy of the Group's statutory accounts for the period ended 31 December 2016, prepared under International Financial Reporting Standards as adopted by the European Union, has been delivered to the Registrar of Companies. The auditors' report on those accounts was unqualified and did not contain statements under section 498(2) or section 498(3) of the Companies Act 2006.

This interim financial report for the six-month period ended 30 June 2017 (including comparatives for the six months ended 30 June 2016) was approved by the Board of Directors on 11 September 2017.

The current rate of cash generation by the Group comfortably exceeds the capital and debt servicing needs of the business (though there cannot, of course, be absolute certainty that the rate of cash generation will be maintained). The Board remains confident that all the bank covenants will continue to be met for at least the next 12 months. The Group has a £4.5m Working Capital Facility of which £4.1m is undrawn at the balance sheet date and which the Board believes should comfortably satisfy the Group's working capital needs for at least the next 12 months.

3. Accounting policies

The same accounting policies and methods of computation are followed in the interim financial report as published by the company in its 31 December 2016 Annual Report. The Annual report is available on the company's website alliancepharmaceuticals.com.

4. Finance costs

	Unaudited Six months ended 30 June 2017 £000s	Unaudited Six months ended 30 June 2016 £000s
Interest payable and similar charges		
On loans and overdrafts	(1,421)	(1,397)
Amortised finance issue costs	(179)	(177)
Notional interest	84	(86)
Interest payable and similar charges	(1,516)	(1,660)
Interest income	54	54
Other finance income – Foreign exchange movements	91	375
Finance Income	145	429
Finance costs – net	(1,371)	(1,231)

Notional interest relates to the unwinding of the deferred consideration on the MacuVision acquisition.

5. Non-underlying item

In March 2017, the Group reached agreement with Sinclair Pharma plc, in connection with the material reduction of business in Kelo-stretch, acquired in 2015. The terms of the agreement was a £4.0m cash payment (received in April 2017) and a further £1m to be paid on or before 30 June 2018, together with all remaining rights to Flammacerium (US) with immediate effect.

The total compensation of £5 million has been treated as a non-underlying exceptional income in these financial statements.

The associated non-underlying tax charge relates to the deferred tax impact of the reduction in intangibles tax relief in future years arising from the reduction in consideration paid for Kelo-stretch.

Notes to the Half Year Report continued

For the six months ended 30 June 2017

6. Taxation

Analysis of charge for the period is as follows:

	Unaudited Six months ended 30 June 2017 £000s	Unaudited Six months ended 30 June 2016 £000s
Corporation tax		
In respect of current period	2,450	2,046
	2,450	2,046
Deferred tax	995	123
Taxation	3,445	2,169

7. Intangible assets

	Goodwill £000s	Brands and distribution rights £000s	Development costs £000s	Assets under development £000s	Total £000s
Cost					
At 1 January 2017 (audited)	16,197	249,376	704	2,500	268,777
Additions	–	–	265	–	265
Transfer In/(Out)	–	438	(438)	–	–
Exchange adjustments	–	(2,172)	–	–	(2,172)
At 30 June 2017 (unaudited)	16,197	247,642	531	2,500	266,870
Amortisation					
At 1 January 2017 (audited)	–	3,944	–	–	3,944
Amortisation for the period	–	157	–	–	157
At 30 June 2017 (unaudited)	–	4,101	–	–	4,101
Net book amount					
At 30 June 2017 (unaudited)	16,197	243,541	531	2,500	262,769
At 1 January 2017 (audited)	16,197	245,432	704	2,500	264,833

8. Trade and other receivables

	Unaudited 30 June 2017 £000s	Audited 31 December 2016 £000s
Trade receivables	19,218	20,530
Other receivables	1,327	1,788
Prepayments and accrued income	1,491	2,110
Amounts owed by Joint Venture	2,303	2,278
	24,339	26,706

9. Trade and other payables

	Unaudited 30 June 2017 £000s	Audited 31 December 2016 £000s
Trade payables	5,473	5,655
Other taxes and social security costs	374	1,030
Accruals and deferred income	9,037	11,125
Other payables	1,181	1,120
Deferred consideration	1,324	3,022
Dividend payable	3,821	–
	21,210	21,952

10. Other non-current liabilities

	Unaudited 30 June 2017 £000s	Audited 31 December 2016 £000s
Deferred consideration	1,609	1,609
Other non-current liabilities	217	208
	1,826	1,817

Notes to the Half Year Report continued

For the six months ended 30 June 2017

11. Earnings per share (EPS)

Basic EPS is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. For diluted EPS, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares.

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

	Six months ended 30 June 2017	Six months ended 30 June 2016
	Weighted average number of shares 000s	Weighted average number of shares 000s
For basic EPS	472,900	468,297
Share options	4,338	6,329
For diluted EPS	477,238	474,626

	Six months to 30 June 2017 £000s	Six months to 30 June 2016 £000s
Earnings for basic and diluted EPS	13,450	9,573
Non-underlying: Exceptional items	(4,150)	–
Adjusted EPS	9,300	9,573

The resulting EPS measures are:

	Six months to 30 June 2017 Pence	Six months to 30 June 2016 Pence
Basic EPS	2.84	2.04
Diluted EPS	2.82	2.02
Adjusted basic EPS	1.97	2.04
Adjusted diluted EPS	1.95	2.02

12. Dividends

	Six months ended 30 June 2017		Six months ended 30 June 2016	
	Pence/share	£000s	Pence/share	£000s
Amounts recognised as distributions to owners in the year				
Interim dividend for the prior financial year	0.403	1,904	0.366	1,714
Final dividend for the prior financial year	0.807	3,821	0.734	3,438
		5,725		5,152

The final dividend for the prior financial year was approved by the Board of Directors on 27 March 2017 and subsequently by the shareholders at the Annual General Meeting on 25 May 2017. This dividend has been included as a liability as at 30 June 2017, in accordance with IAS 10 Events After the Balance Sheet Date, and was paid on 12 July 2017 to shareholders who were on the register of members at 16 June 2017.

Notes to the Half Year Report continued

For the six months ended 30 June 2017

13. Borrowings

Movements in borrowings are analysed as follows:

	Six months ended 30 June 2017 £000s
At 1 January 2017 (audited)	83,336
Repayment of borrowings	(10,136)
Amortisation of prepaid arrangement fees	179
Exchange movements	(925)
At 30 June 2017 (unaudited)	72,454

The carrying amount of the group's borrowings are denominated in the following currencies:

	Unaudited 30 June 2017 £000s	Audited 31 December 2016 £000s
GBP	38,128	42,508
USD	19,500	26,585
EUR	15,789	15,385
Loan issue costs	(963)	(1,142)
	72,454	83,336

14. Post balance sheet events

As stated in our announcement in July 2017, the Medicine and Healthcare products Regulatory Agency ("MHRA") did not approve Diclectin for the UK, a treatment for nausea and vomiting of pregnancy which was unexpected. Our regulatory team has now had time to work with Duchesnay Inc. of Canada ("Duchesnay"), the licensor and marketing authorisation applicant, to better understand the objections of the MHRA. Whilst the communication between the MHRA and Duchesnay remains confidential, we believe there are grounds to re-open discussions. Diclectin is a much needed product as there is no licensed medicine for treating nausea and vomiting of pregnancy in the UK. At this stage we expect these discussions to continue well into 2018 and, in the meantime, we will re-direct our commercial resources to other important growth projects within the company.

The Group in-licensed Diclectin for the UK in 2015 and for a further nine European territories in 2016. The total amount paid to Duchesnay for all territories was £1.5 million with a further £1.0 million payable to Duchesnay on successful licence applications; the total £2.5m is included within intangible fixed assets and the £1.0m deferred consideration is included within liabilities.

Duchesnay, the licence applicant, has notified the regulator that it wants to re-open discussions and the Board has concluded that it continues to be appropriate to retain the intangible asset (and the associated deferred consideration) whilst this review is underway. In the event the licence for Diclectin is not approved, the amounts paid to Duchesnay (£1.5 million) are fully refundable and the deferred consideration (£1.0 million) would be cancelled resulting in no net financial impact in the Income Statement.

Notes to the Half Year Report continued

For the six months ended 30 June 2017

15. 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 exceptional and non-underlying items. Adjusted profitability measures are presented excluding exceptional and 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 on-going business performance against both shorter term budgets and forecasts but also against the groups longer term strategic plans.

APMs used to explain and monitor group performance:

Measure	Definition	Reconciliation to GAAP measure
EBITDA	Earnings before interest, tax, depreciation, amortisation and non-underlying items. Calculated by taking profit before tax and financing costs, excluding non-underlying items and adding back depreciation and amortisation.	Note A below
Free cash flow	Free cash flow is defined as EBITDA less working capital and non-cash movements (excluding exceptional items), tax payments, interest payments, core capex and other non-cash movements.	Note B below
Net debt	Net debt is defined as the group's bank debt position net of its cash position.	Note C below

A. EBITDA

Reconciliation of EBITDA	Unaudited Six months ended 30 June 2017 £000s	Unaudited Six months ended 30 June 2016 £000s
Profit before tax	16,895	11,742
Exceptional item (note 5)	(5,000)	–
Financing costs (note 4)	1,371	1,231
Depreciation	226	181
Amortisation	157	84
Total	13,649	13,238

B. Free cash flow

Reconciliation of free cash flow	Unaudited Six months ended 30 June 2017 £000s	Unaudited Six months ended 30 June 2016 £000s
Cash generated from operations	14,975	6,334
Financing costs	(1,557)	(1,633)
Capital expenditure	(984)	(528)
Tax paid	(1,370)	(2,101)
	11,064	2,072

C. Net debt

Reconciliation of net debt	Notes	Unaudited 30 June 2017 £000s	Audited 31 December 2016 £000s
Loans and borrowings – current	13	(25,819)	(25,782)
Loans and borrowings – non-current	13	(46,635)	(57,554)
Cash and cash equivalents		9,006	7,221
		(63,448)	(76,115)

Advisors and Key Service Providers

Auditor

KPMG LLP
66 Queen Square
Bristol BS1 4BE

Financial PR

Buchanan Communications
107 Cheapside
London EC2V 6DN

Bankers

Lloyds Bank Corporate Markets
The Atrium
Davidson House
Forbury Square
Reading
Berkshire RG1 3EU

Royal Bank of Scotland
3rd Floor
3 Temple Back East
Bristol BS1 6DZ

Silicon Valley Bank
Alphabeta
14–18 Finsbury Square
London EC2A 1BR

Corporate Advisor

Numis Securities Ltd
10 Paternoster Square
London EC4M 7LT

Registrars

Capita Asset Services
PXS 1
34 Beckenham Road
Beckenham
Kent BR3 4ZF

Brokers

Numis Securities Ltd
10 Paternoster Square
London EC4M 7LT

Investec Bank plc
2 Gresham Street
London
EC2V 7QP

Registered Office

Avonbridge House
Bath Road
Chippenham
Wiltshire
SN15 2BB

Company number

04241478

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The following are registered trade marks of subsidiaries of Alliance Pharma PLC and are protected in a number of countries:

Absorbagel™, Acnisal™, Actidose Aqua™, Affina-Lift™, Alliance™, Alliance and Logo, Alliance Generics, Aloclair™, Alostop™, Anbesol™, Aquadrate™, Ashton & Parsons™, Ashton & Parsons Infant Powder™, Atarax™, Atopiclair™, Avloclor™, Biocorneum™, Biorphen™, Bio-taches™, Biotanoid™, Broflex™, Buccastem™, Buccastem M™, Canker-X™, Ceanel™, Clearway™, Clearway Stoma Bridge™, Contisol™, Decapinol™, Deltacortril™, Deogel™, Dermachronic™, Dermacide™, Dermamist™, Distamine™, Effadiane™, Emezine™, Energeyes™, Fadiamone™, Fazol™, Flammacerium™, Flammaclair™, Flammasun™, Flammazine™, Forceval™, Forceval Junior™, Fractar Fractar 5™, Gen-ongles™, Gregovite C™, Hemopressin™, Herpclair™, Hydrobath™, Hydromol™, Irenat™, ISIB™, Isprelor™, Jonctum™, Kelo-cote™, Kelo-stretch™, Lift™, Lift Medical Adhesive Remover™, Lift Plus/ Lift +™, Lypsyl™, Lypsyl- It's on everyone's lips™, Lypsyl Kissables™, Lypsyl Shimmer™, Lysovir™, MacuShield™, MacuShield Gold™, Meted™, MolluDab™, Naseptin™, Natulan™, NaturCare™, NaturCare Breeze™, NaturCare Fragrant™, NaturCare IPD™, NaturCare Zest™, NuSeals™, Occlusal™, Ondemet™, Opus™, Oxyplastine™, Paludrine™, Papclair™, Papuduo™, Papustil™, Pavacol™, Pavacol-D™, Pentrax™, Peptavlon™, Periocycline™, Periostan™, Periostand™, Periostat™, Periostatus™, Permitabs™, Posidorm™, PS20™, Q Device™, Quinocort™, Quinoderm™, Quinosept™, Reloxyl™, Reticus™, Rincinol™, Rizotret™, Rizuderm™, Roman in Chariot Device™, Rympa™, Savarine™, Sebclair™, Skinsafe/Skinsafe™, Skinsafe Non Sting Protective Film™, Stemflova™, Stylised O Device (in orange)™, Syntomet™, Syntometrin™, Syntometrine™, Terra-Cortril™, T-Go™, Thwart™, Thyrogard™, Timocort™, Timocreme™, Timodine™, Tridesonit™, Trust the science™, Uniflu™, Unigreg™, Unisomnia™, Variquel™, Verucide™, Vibramycine™, Vita-Dermacide™.

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Alliance Pharma plc
Avonbridge House
Bath Road
Chippenham
Wiltshire
SN15 2BB
United Kingdom

T: +44 (0)1249 466966
F: +44 (0)1249 466977
E: ir@alliancepharmaceuticals.com

www.alliancepharmaceuticals.com