Financial Review

"Robust control of the costs we can actively manage drove 5% reduction in operating costs[1] leading to underlying EBITDA up 15% on revenue growth of 6%."

Andrew Franklin
Chief Financial Officer

UNDERLYING EBITDA

£45.0m

+15% (2022: £39.2m)

See our Financial Statements on page 104

SUMMARY INCOME STATEMENT

Year ended 31 December

	2023 £m	2022[2] £m	Growth
See-through revenue[3]	**182.7**	172.0	6%
Statutory revenue	**180.7**	167.4	8%
Gross profit	**105.0**	101.7	3%
Operating costs (including share-based employee remuneration)	**60.0**	62.5	-4%
Underlying EBITDA[3]	**45.0**	39.2	15%
Depreciation and underlying amortisation	**3.1**	3.5	-11%
Underlying operating profit ("EBIT")[3]	**41.9**	35.7	17%
Finance costs	**10.4**	5.4	93%
Underlying profit before taxation[3]	**31.5**	30.3	4%
Reported profit/(loss) before taxation	**(48.8)**	(23.1)	111%
Underlying basic earnings per share[3]	**4.55p**	4.28p	6%
Reported basic earnings per share	**(6.13)p**	(3.93)p	56%
Proposed total dividend per share	**nil**	1.776p	–

1 Excluding share-based employee remuneration.

2 Restated, see note 2.20 for further detail on prior year adjustment.

3 The performance of the Group is assessed using Alternative Performance Measures ("APMs"), which are measures that are not defined under IFRS, but are used by management to monitor ongoing business performance against both shorter-term budgets and forecasts and against the Group's longer-term strategic plans. APMs are defined in note 30.

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

Underlying profitability metrics are presented, as we believe this provides investors with useful information about the performance of the business. In 2023 and 2022, underlying results exclude the amortisation and impairment of acquired intangible assets. Further detail can be found in note 5.

FINANCIAL REVIEW CONTINUED

REVENUE SUMMARY

Year ended 31 December

	2023 £m	2022 £m	Growth	CER growth
Kelo-Cote™ franchise	**63.2**	50.0	26%	29%
Amberen™	**11.2**	14.9	-25%	-25%
Nizoral™*	**21.7**	21.8	-0.5%	3%
Other Consumer brands	**40.3**	38.4	5%	5%
Total Consumer Healthcare	**136.4**	125.2	9%	11%
Prescription Medicines	**46.3**	46.8	-1%	-1%
See-through revenue*	**182.7**	172.0	6%	7%
*LFL Consumer Healthcare See-through revenue, excl. US Acquisition**	**133.8**	125.2	7%	9%
*LFL See-through revenue, excluding US Acquisition**	**180.1**	172.0	5%	6%
Statutory revenue – Consumer Healthcare	**134.3**	120.6	11%	13%
Statutory revenue – Group	**180.7**	167.4	8%	9%
*LFL Consumer Healthcare statutory revenue, excluding US Acquisition**	**131.7**	120.6	9%	11%
*LFL Group statutory revenue, excluding US Acquisition**	**178.1**	167.4	6%	8%

REVENUES

The Group delivered record see-through revenues in the period of £182.7m (FY22: £172.0m), up 6% versus the prior period and up 7% at constant exchange rates ("CER"). Excluding sales from ScarAway™ and the US rights to Kelo-Cote in Q1 23, both acquired in March 2022 (the "US Acquisition") - like-for-like see-through revenues increased 6% CER.

Group revenue was adversely affected by exchange rate movements throughout 2023, principally the strengthening of Sterling against the Hong Kong Dollar and the Chinese Yuan, which decreased see-through revenue by approximately £2.1m. Statutory revenue increased 8% to £180.7m (2022: £167.4m) and up 9% CER.

Consumer Healthcare

Total see-through Consumer Healthcare revenues for the year were £136.4m (2022: £125.2m), up 9% on the prior year (+11% CER) benefitting from an additional quarter of sales from the US Acquisition. Statutory Consumer Healthcare revenues were £134.3m, up 11% from the previous year (2022: £120.6m) and up 13% CER.

Excluding the impact of the US Acquisition, like-for-like see-through Consumer Healthcare revenue increased 7% (+9% CER) to £133.8m, whilst on a statutory basis, like-for-like Consumer Healthcare revenues increased 9% to £131.7m (+11% CER).

Kelo-Cote franchise – scar prevention and treatment

Continued strong consumer demand, particularly in China, drove significant recovery in Kelo-Cote franchise revenues in H2, following the previously communicated 4% decline in H1 due to lower order volumes from our China cross-border partner during a period of destocking. Consequently, FY23 revenues increased 29% CER to £63.2m (2022: £50.0m).

Whilst revenues in China make up over 66% of the total Kelo-Cote franchise, we saw strong growth in smaller markets where we are beginning to leverage our global presence to drive targeted consumer activation campaigns. Our first UK outdoor campaign was particularly successful, increasing sales in the UK by 36% for the year versus 2022, and was followed by a multimedia digital marketing campaign. The assets for this campaign were designed to have global appeal and will be used in other geographies this year.

Our most recent acquisition of the US rights to ScarAway and Kelo-Cote (which completed in March 2022), has created the Group's first fully global brand. The integration of both assets has gone very smoothly with full transition completed in just four months. ScarAway sales reached £9.9m in 2023, exceeding our expectations to rise 20% CER on a like-for-like basis as we increased marketing investment behind the brand and worked with our CMO partner to bring key SKUs to market that had been discontinued by the previous owner. We continue to see opportunities for further growth and range extensions.

FINANCIAL REVIEW CONTINUED

Recent new product introductions across the Kelo-Cote™ franchise are performing well with a second year of strong revenues for Kelo-Cote Kids in APAC. In Q1 24, we launched ScarAway™ Kids and ScarAway Acne Scar Gel in the US on Amazon, whilst further activation campaigns are planned for recently launched Kelo-Cote Sheets.

Starting this year, our ambition is to move towards smaller, more regular order fulfilment, to create a more consistent revenue stream, reducing the stocking and destocking cycles we've experienced over the last two years. This is expected to yield mid-single digit revenue growth for the Kelo-Cote franchise in 2024, before returning to double-digit growth from 2025.

Nizoral™ – medicated anti-dandruff shampoo

Nizoral revenues increased 3% CER to £21.7m (2022: £21.8m) reflecting both market share and distribution gains. Performance in 2023 showed marked volatility in growth in H1 versus H2 due to the timing of distributor orders received in 2022. H1 revenues grew 40% CER versus H1 22, benefitting from the aforementioned timing and some inventory build ahead of a move in manufacturer, whereas H2 revenues declined 18% CER, limiting overall growth in the year.

Having completed the transfer of all the marketing authorisations from Johnson & Johnson ("J&J") to Alliance in 2022 we were able to bring in a new distributor and begin the process to consolidate manufacturing in Asia in 2023. Our new Chinese distributor has identified strong growth opportunities through expanding the brand's reach, supported by our marketing initiatives. A new out-of-home campaign was launched in the top nine cities in China in August focused on new user recruitment, which was supported by our distributor partner's in-store promotional activity.

The roll out of our strategic brand plan for Nizoral is now well underway, with consumer activation campaigns ongoing across a number of other territories where Nizoral commands a market leading position, including Australia, South Korea, Thailand and the Philippines. These campaigns are run in partnership with our local distributors, as part of a growth strategy centred around Consumer Healthcare professional activation, ecommerce, and I&D. We launched new, modernised packaging in Thailand, designed to appeal to a younger audience, with marketing focused on social media platforms popular with this demographic. This new packaging will be launched in other markets in 2024.

During the year, we also selected a new manufacturer in Thailand and have now completed the transfer of manufacturing from J&J's site in Belgium. We anticipate that this will deliver advantages through COGS reductions, improvements in on-time-in-full, order fulfilment and reduced carbon emissions. We expect further reductions in carbon emissions through changes to product packaging.

The inventory build in H1 23 to secure supply during the move to the new manufacturer began to unwind in H2 23, and continued to do so through H1 24. Whilst we anticipate a strong H2 24 as we launch new products, sales for FY 2024 are expected to be broadly in line with FY 2023.

As part of our annual impairment review, we have adopted a more conservative approach and lowered future growth expectations for Nizoral until we have greater certainty on consumer response to our marketing campaigns and new product launches. We have therefore impaired the carrying value of Nizoral by £10.3m.

Amberen™ – US vitamin mineral supplement ("VMS") for the relief of menopause symptoms

Amberen revenues declined 25% CER to £11.2m (2022: £14.9m) and fell 6% CER on an underlying basis (excluding the leading discount store account that was lost in 2022). Whilst this performance was below our expectations at the beginning of the Year, it reflects challenging conditions in both the wider US consumer market and specific issues with Amazon. These included a change to the billing for Amazon's warehouse space and its' price comparison approach, in addition to the delisting of the perimenopause product, albeit for a few months, due to the incorrect application of an algorithm that screens advertising claims.

Despite these challenges, Amberen revenues on Amazon still grew strongly in the period, but lagged total category growth which was driven primarily by new entrants. The bricks and mortar market for VMS menopause relief continues to decline, falling 7% in value terms in 2023 as consumers pivot to ecommerce platforms.

As a consequence of 2023 performance, and as part of the annual impairment review, we have assessed the expected future cash flows generated by Amberen, taking into account future planned innovation launches, marketing investment, increased competition and a higher cost of capital due to the overall increase in borrowing rates. Whilst Amberen continues to remain a profitable and cash generative brand, we have further impaired the carrying value of Amberen by £46.4m.

We remain focussed on addressing these brand and marketplace issues through strengthening both our internal and external capabilities in ecommerce and digital marketing. We have also increased the level of marketing support to revert the brand to growth. Amberen for menopause remains the largest SKU in value terms across the category in the US and we are focused on developing an innovation pipeline, to underpin the growth of the brand in the longer term and widen the product range to cover a multiple set of benefits in line with consumer's needs.

Other Consumer Healthcare brands

Our underlying business remains strong, with Other Consumer Healthcare revenues increasing 5% CER to £40.3m (2022: £38.4m), despite regulatory delays in some products impacting stock availability in H1 23. These issues have now been resolved. We saw particularly strong full year growth from Oxyplastine (skin care) and Ashton & Parsons (teething powder). This robust performance in our Other Consumer Healthcare brands clearly illustrates the benefits of a diversified portfolio, and we anticipate mid single-digit growth in this portfolio of products in 2024.

Prescription Medicines

The Prescription Medicines business continues to deliver stable revenues with £46.3m (2022: £46.8m), in the year, down 1% on the prior year; reflecting a strong recovery in H2 as expected, as previously out of stock products became available. Our two largest prescription brands Hydromol™ (emollient for the treatment of eczema) and Forceval™ (nutritional supplement), both performed well in the year delivering record sales of £9.0m and £6.6m respectively.

Operating performance

Whilst see-through revenues increased 6% in the year, gross profit increased at a rate slower than revenues at 3% to £105.0m (2022: £101.7m) due to a less favourable product mix (comprising fewer high margin Amberen sales, and the impact of regulatory delays in some products restricting stock availability in H1 2023), and an increase in warehouse and distribution costs primarily related to Amazon in the US. Gross margin reduced by 160 basis points to 57.5% of see-through revenue (2022: 59.1%) and gross margin relative to statutory revenue was 58.1% (2022: 60.8%).

However, through robust control of the costs we actively manage, operating costs (defined as underlying administration and marketing expenses, excluding depreciation and underlying amortisation charges) decreased 5% versus the prior year to £59.1m (2022: £62.3m).

With a £0.8m increase in share option charges versus prior year (2023: £0.9m, 2022: £0.1m), underlying earnings before interest, taxes, depreciation, and underlying amortisation ("EBITDA") increased 15% to £45.0m (2022: £39.2m), whilst underlying operating profit ("EBIT") increased by 17% to £41.9m (2022: £35.7m). Reported operating loss increased by £20.8m resulting in a £38.4m loss (2022 restated: £17.7m loss), after non-underlying items of £80.3m (2022 restated: £53.4m).

Net finance costs of £10.4m include a £4.6m increase in interest payable to £10.0m (2022: £5.4m), due to an increase in borrowing costs, reflecting the rise in interest rates, together with net exchange losses of £0.5m (negligible gain in 2022).

As a result of higher finance costs, underlying profit before tax increased by only 4% to £31.5m (2022: £30.3m), resulting in a 40 basis point margin reduction to 17.2% of see-through revenues. Reported profit before tax decreased to a £48.8m loss (2022 restated: £23.1m loss), primarily due to higher non-underlying impairment charges in 2023.

Depreciation and underlying amortisation

Depreciation and underlying amortisation charges for the year were £3.1m (2022: £3.5m), a reduction of £0.4m due to lower depreciation charges.

Non-underlying items

Non-underlying items in the year principally comprised amortisation charges for Prescription Medicines and certain other brand assets, together with impairment charges identified as a result of the annual impairment review (see note 5).

For 2023, impairment charges of £79.3m include a charge of £46.4m in relation to Amberen™, together with £32.9m relating to a number of other products (including £10.3m for Nizoral) driven by out of stock and regulatory issues, and the increased cost of capital for the business as a whole.

As noted on page 04, an impairment charge of £46.4m relating to Amberen was included as a non-underlying item for the year ended 31 December 2023. We have also undertaken a review of the valuation of Amberen in the 2022 accounts to correct for errors noted in the valuation model. Adjusting for these corrections in the prior year, the impairment charge for Amberen would have totalled £32.0m for the year ended 31 December 2022, compared to the £12.0m actually reported. Further information on this prior year adjustment is set out on page 78 of the Audit and Risk Committee report and in note 2.20 on page 128 for further details.

Post year end and as previously mentioned, we were successful in our appeal of the CMA decision. As this is an adjusting post balance sheet event we have removed the provision relating to the potential fine of £7.9m, accordingly. This has been recorded as a non-underlying event, consistent with the treatment when the original accrual was made in 2021.

Further detail on non-underlying items is provided in note 5.

RECONCILIATION OF UNDERLYING TO REPORTED PROFIT BEFORE TAX

	2023 £m	2022[1] £m
Underlying profit before taxation	31.5	30.3
Non-underlying items:		
Amortisation of acquired intangibles	(7.2)	(7.2)
Impairment of intangible assets and goodwill	(79.3)	(46.5)
Other	6.1	0.4
Total	(80.3)	(53.4)
Reported profit before taxation	(48.8)	(23.1)

1 Restated

FINANCIAL REVIEW CONTINUED

Taxation

The underlying tax charge for the year was £6.9m (2022: £7.2m), equating to an underlying effective tax rate of 22.0% (2022: 23.9%). The reported total tax for the year was a credit of £15.7m (2022 restated: £1.8m credit) which included a deferred tax credit of £22.6m mainly due to the impairment of Amberen and Nizoral.

Earnings per share

Underlying basic earnings per share, the measure used by the Board to assess earnings performance, increased 6% to 4.55p (2022: 4.28p). Reported basic earnings per share was a loss of 6.13p (2022 restated: 3.93p loss) due to the impact from non-underlying items on reported earnings in 2023 versus 2022.

Dividend

As detailed in the interim statement on 26 September 2023, the dividend was paused to allow the Board to develop a new dividend policy with greater emphasis on reinvestment in the business to drive growth. Taking account of shareholder feedback, the Board has decided that no dividend will be declared for 2023 with cash prioritised for investment in innovation, development, brand marketing and reducing debt. The Board expects to provide an update on dividend policy when appropriate.

Balance sheet

Intangible assets decreased by £93.4m in the year to £300.0m (31 December 2022 restated: £393.4m) reflecting non-underlying amortisation and impairment charges of £86.5m, underlying amortisation of £1.9m and exchange rate-related revaluation adjustments of £5.0m.

Working capital

Net working capital at 31 December 2023 was £43.4m, an increase of £5.4m on that at the start of the year (31 December 2022: £38.0m), primarily reflecting movements in accounts receivable balances.

Inventories, net of provisions, increased £1.4m to £25.7m at 31 December 2023 (31 December 2022: £24.3m).

Accounts receivable increased by £5.4m to £54.7m, reflecting the timing of sales and cash receipts in the second half of the year, versus the equivalent period in 2022.

Accounts payable was broadly in line with the prior year, up £1.5m to £37.1m.

Cash flow and net debt

Free cash flow (see note 30 for definition) for the year rose 35% to £21.3m (2022: £15.8m), due to the strong trading performance in H2. Cash generated from operations increased by 48% to £36.9m (2022: £24.9m).

This solid cash generation supported a reduction in net debt of £10.8m to £91.2m at 31 December 2023 (31 December 2022: £102.0m), with Group leverage (the ratio of net bank debt to EBITDA) decreasing to 2.05 times (31 December 2021: 2.57 times). Interest rate cover (the ratio of EBITDA to finance charges) decreased to 4.82 times (31 December 2022: 7.39 times), reflecting the increase in net interest cost on rising interest rates.

Net debt and Group leverage are both expected to fall further during 2024, particularly in the second half, with Group leverage expected to be below 2.0 times by the end of 2024.

Prior year adjustments

Following a comprehensive review of our brand and intangible assets we have reassessed the carrying value and identified errors in the impairment review performed in 2022. As a consequence, we increased the 2022 impairment of intangibles assets by £28.3m. As discussed previously, £20.0m of this relates to Amberen, whilst £8.3m comprises other assets, including £3.4m relating to the Flamma franchise.

Treasury management

In August, we successfully completed the refinancing of our Revolving Credit Facility, which was scheduled to mature in July 2024. The facility was agreed with the Group's existing syndicate of supportive relationship banks. Through the refinancing, we took the opportunity to resize and reduce the total committed facility by £15.0m to £150.0m, whilst increasing the Accordion by £15.0m to £65.0m.

The covenants include a net leverage and interest cover test. The facility is available until August 2026, with two further one-year extension options. Of this RCF, £35.2m, together with the whole of the Accordion Facility, remained unutilised as at 31 December 2023. Borrowings are denominated in Sterling, Euro and US Dollars.

In 2023, the Group also entered into interest rate swaps totalling £90.0m with staged maturities over three years to hedge the interest rate exposure on the RCF.

Looking forward to 2024

Alliance's clear focus on the core Consumer Healthcare business, in addition to our well-established, scalable platform across EMEA, APAC and the US, is expected to deliver continued modest revenue growth.

As we continue to refine our strategy we intend to move towards smaller, more regular order fulfilment, to create a more consistent revenue stream, reducing the stocking and destocking cycles we've experience over the last two years as we've chcanged distributors, moved manufacturing and managed through the COVID environment.

In 2024 we will continue to increase investment in sales, marketing, insights and innovation to maintain our leadership position in key categories.

The Board continues to anticipate that profits in FY 2024 will be be in-line with FY 2023. As in previous years, performance is expected to be H2 weighted, particularly in Nizoral

We remain confident in our ability to further capitalise on identified organic growth opportunities within the business, and to deliver financial performance which will help drive the de-levering of our balance sheet.

Andrew Franklin
Chief Financial Officer
18 June 2024