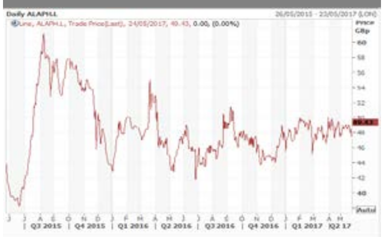
Pharmaceuticals & Biotechnology



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	APH
Price (p)	49.0
12m High (p)	53.5
12m Low (p)	40.5
Shares (m)	473.4
Mkt Cap (£m)	232.0
EV (£m)	311.0
Free Float*	79%
Market	AIM

**As defined by AIM Rule 26*

Description

Alliance Pharma acquires, markets, and distributes medical and healthcare brands in the UK and Europe (direct sales) and the RoW (via distributor networks), through a buy and build strategy, generating relatively predictable strong cash flows.

Company information

CEO	John Dawson
CFO	Andrew Franklin
Chairman	Andrew Smith

+44 1249 466 966
www.alliancepharmaceuticals.com

Key shareholders

Directors	9.2%
MVM Life Sciences	11.7%
Fidelity	8.9%
Artemis	7.7%
Slater	7.4%

Diary

25 May	AGM
15 June	Ex-dividend date
Late-17	Diclectin UK approval

Analysts

Martin Hall 020 7194 7631
mh@hardmanandco.com
Dorothea Hill 020 7194 7626
dmh@hardmanandco.com
Gregoire Pave 020 7194 7628
gp@hardmanandco.com

Alliance Pharma

A transformational year driving growth

Alliance Pharma's buy-and-build strategy to evolve into a profitable, cash generative, specialty pharma business is clearly bearing fruit. Acquisition of the dermatology and woundcare products from Sinclair Pharma was transformational, doubling the size of the company and providing a more internationally-oriented business. The enlarged group is also a more attractive and credible partner for in–licensing and M&A opportunities. 2017 looks set to be an exciting year for the group: not only is there solid underlying growth potential in the re-focused group, but also regulatory approval of Diclectin offers further significant growth potential.

- **Strategy:** Since inauguration, APH has adopted a buy-and-build model, with 33 deals over 19 years assembling a portfolio of >90 products and establishing a strong track record. It is accelerating growth through investing in three multi-market brands, with infrastructure supported by its passive products.

- **2016 results:** Reported sales of £97.5m were boosted by acquired products and forex, with underlying growth of +7.4%. Gross margins were lower largely due to the acquired portfolio. Weak sterling negatively impacted net debt to -£76.1m; loan reduction in 2017 will benefit from cash from the Sinclair warranty.

- **Growth brands:** About half of marketing spend is focused on key international growth brands: Kelo-Cote became APH's first product to pass the £10m sales mark; strong growth also seen with MacuShield; and once approved in UK and EU, Diclectin is also expected to become an 'International Star' brand.

- **Risks:** Alliance Pharma has a diversified strategy that includes International Star brand growth potential supported by Bedrock products. However, as demonstrated with Kelo-stretch, established sales patterns are not guaranteed, and the newly in-licensed Diclectin is an unknown entity.

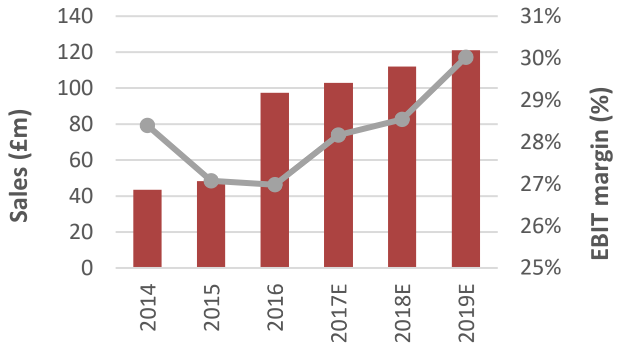
- **Investment summary:** Although APH is forecast to have +8% CAGR in sales over the next three years, medium-term EPS growth will be held back by the investment in marketing. The progressive dividend policy is expected to remain. Shares are trading on a 2017 P/E of 11.6x and carry a dividend yield of 2.7%, covered 3.2x. Launch of Diclectin has the potential to transform medium- to long-term growth prospects (only UK launch costs included in current forecasts).

Financial summary and valuation

Year end Dec (£m)	2014	2015	2016	2017E	2018E	2019E
Sales	43.5	48.3	97.5	103.0	112.0	121.0
Operating profit	12.4	13.1	26.3	29.0	31.3	35.6
Reported pre-tax profit	10.2	15.9	22.2	29.0	26.9	31.8
Underlying EPS (p)	3.3	4.2	4.1	4.2	4.7	5.5
Reported EPS (p)	3.2	4.9	3.9	5.0	4.4	5.2
DPS (p)	1.0	1.1	1.2	1.3	1.5	1.6
Net (debt)/cash	-21.1	-71.5	-76.1	-59.6	-44.4	-27.6
Net debt/EBITDA (x)	1.6	5.3	2.8	2.0	1.4	0.7
P/E (x)	14.9	11.7	11.8	11.6	10.4	8.9
EV/sales (x)	7.1	6.4	3.2	3.0	2.8	2.6
EV/EBITDA (x)	23.6	22.9	11.6	10.5	9.5	8.4
Dividend Yield (%)	2.0	2.2	2.5	2.7	3.0	3.3

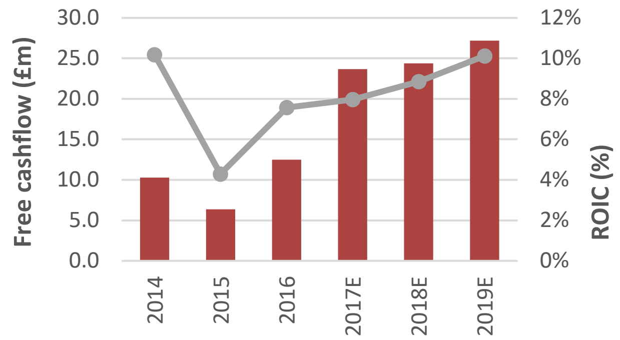
Source: Hardman & Co Life Sciences Research

Sales & margin



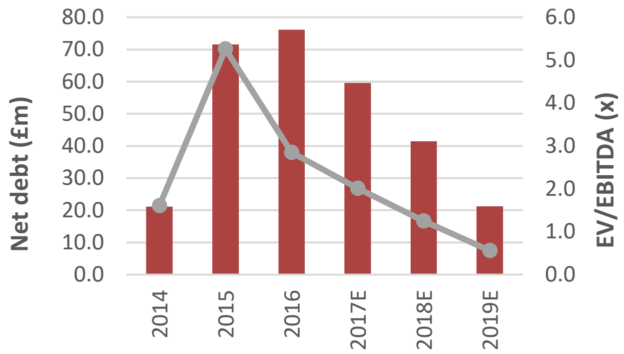
- 2016 underlying sales growth of +7.4% from 2015 to £97.5m
- Two particular recently acquired international brands (Kelo-Cote and MacuShield) are driving sales growth
- EBIT margin is underlying margin, before share-based payments
- Gross margins down slightly in 2016 but expected to accelerate from newly acquired products: target 25-30%

Free cashflow & ROIC



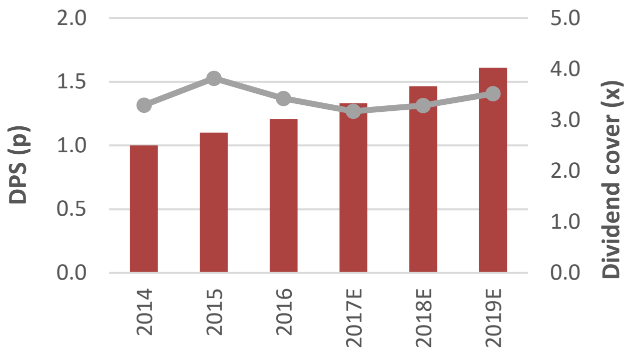
- 2016 investment and integration were offset by big jumps in gross profits generating free cash increases
- Driven by ex-Sinclair products acquired end FY2015
- Operating cashflow conversion is typically ca.100% of EBIT
- 2015 ROIC impacted by year end acquisition of Sinclair IS portfolio, returning to normal in 2016 after which it should return to ca.10% in 2019

Net debt



- Net debt at 31st December 2016 was £76.1m, slightly better than expectations
- Financial covenants are well within the specified range, with net debt/EBITDA of 2.8x at the end of 2016, falling to around 2x in 2017 (*in 2015 it was unusually high because of the timing of the Sinclair acquisition)
- Minimum interest cover (EBITDA/interest cost) of 4.0x. This is expected to be 9.0x in 2016
- Cash compensation from Sinclair Pharma will be used to pay down debt

Dividends



- Progressive dividend policy since dividend commenced in 2009
- 2016 dividend of 1.21p, +10%; rising to 1.33p in 2017
- Dividend cover of ca.3.4x in 2016 and 3.2x in 2017
- Scope to increase dividend

Source: Company data; Hardman & Co Life Sciences Research

2016 results

Key features

Operational

- **Growth drivers:** The integration process for newly acquired products has been successful, doubling the scale of APH, with stronger teams and systems, accelerating sales, and increased growth potential from brands like Kelo-Cote
- **Internationalisation:** Acquisitions and in-licensing have consolidated APH's EU footprint and ongoing international potential, complementing the established UK brands and making the group more attractive to industry partners
- **Diclectin:** Originally in-licensed for UK only, 2016 saw successful negotiation to expand commercial rights into another nine EU territories. A big international opportunity – potentially 12% penetration of EU markets within 3 years

Post-balance sheet event

- **Warranty settlement:** APH is receiving a warranty settlement from Sinclair for reduction of Kelo-stretch business as £5m cash – £4m was received in April 2017 and £1m is due by end June 2018 – and full Flammacerium rights incl. US

Financial

- **Sales:** Underlying growth of +7.4% (vs *pro forma*) was boosted by weakness of sterling to a reported £97.5m; non-UK customers now comprise ca.49% of sales
- **COGS:** Gross margins eased back to 56.2% from 59.4%, largely due to lower margins on the acquired Sinclair portfolio, coupled with weakness in sterling when translating overseas manufacturing costs
- **EBITDA:** Earnings before tax, depreciation and amortisation were £26.74m, -£0.06m lower than forecast but +96.6% growth on the previous period
- **Dividend:** APH is continuing its progressive dividend policy – full year dividends were increased +10% to 1.21p per share
- **Net debt:** After a cash neutral 1H'16, about £10m of cash was generated in the second half. This was masked at the net debt level by retranslation of overseas debt at period end rates – impact -£6.2m – leaving net debt at -£76.1m

Actual vs forecast summary

Year end Dec (£m)	2015 actual	2016 actual	CER Growth %	2016 forecast	Delta
Sales	**48.34**	**97.49**	**+7.4%**	**97.5**	**-0.01**
COGS	-19.61	-42.64		-42.9	+0.26
SG&A	-15.63	-28.84		-28.6	-0.24
EBITDA	**13.60**	**26.74**	**+97%**	**26.8**	**-0.06**
Underlying EBIT	13.09	26.31	+101%	26.2	+0.11
Pre-tax profit	12.83	23.55		23.2	+0.35
Underlying EPS (p)	**4.20**	**4.14**	**-1%**	**4.07**	**+0.07**
Free cashflow	6.35	12.49		12.3	+0.19
Net debt	**-71.55**	**-76.12**		**-76.1**	**-**

Numbers may not add up exactly due to rounding
Source: Hardman & Co Life Sciences Research

Operational update

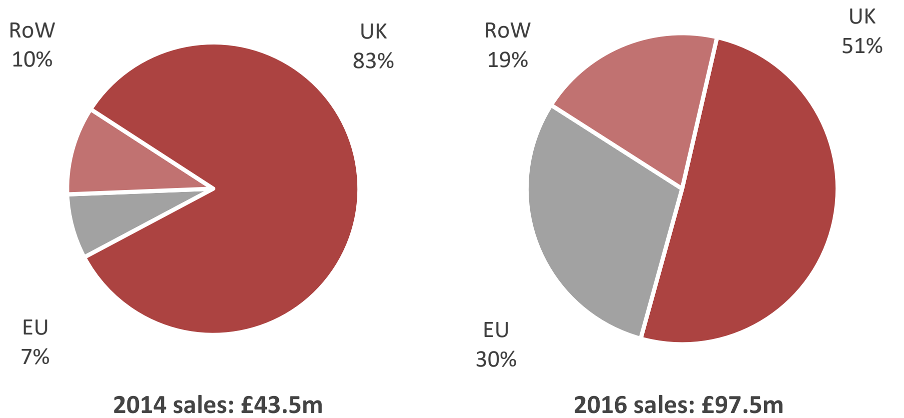
Internationalisation

One of the key reasons behind management's strategic move to acquire the pharmaceutical portfolio of Sinclair was to make the business more international. This single transaction had a number of positive effects:

- Altered the risk profile of the group away from the UK
- Increased the number of 'significant' products by sales in the portfolio
- Provided European infrastructure
- Provided infrastructure in Asia (Singapore), adding to Alliance's direct presence in China
- Provided an established international distribution network
- Generated the opportunity to cross-sell some key UK brands
- Made APH a more attractive partner for in-licensing opportunities

Many of these points were borne out in the 2016 results. The UK is still important for APH, but now represents about half of group sales compared to 83% before. Kelo-Cote (scar treatment) became APH's top-selling drug and the first to achieve annual sales in excess of £10m per annum. Diclectin (nausea & vomiting in pregnancy, NVP) commercial rights, originally acquired from Duchesnay in January 2016 for the UK-only, were expanded to include a further nine European territories in September 2016 because of APH's expanded infrastructure and capability.

Development of international sales

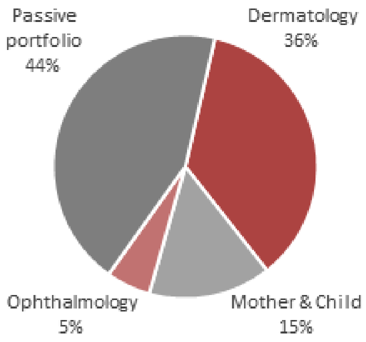


Source: Hardman & Co Life Sciences Research

The group's core strategy has not changed. First, APH remains headquartered in the UK, but now has direct presence in five European countries in addition to China and SE Asia (via Singapore), greatly increasing its international reach. Secondly, it will continue to out-source many of its operating functions such as manufacturing, distribution and logistics. Thirdly, APH will continue to focus its marketing activities on a small number of growth drivers. Initially, about half of its total marketing spend will be on three 'International Star' brands, which can potentially be cross-sold into additional territories in the enlarged network in the future. This investment will initially put a limit on the rate of operating profit growth, until Diclectin sales traction is reached.

Products

APH product split



Source: Alliance Pharma

Alliance Pharma's buy-and-build strategy has seen the completion of 33 deals over 19 years to create a group consisting of a portfolio of over 90 products. The group is continually evolving. In 2015, management took the opportunity to focus the group into actively managed growth areas – dermatology, mother & child, ophthalmology – leaving the passive portfolio of bedrock drugs to generate sustainable cashflows. During 2016, following acquisition of the Sinclair portfolio, this evolution has continued through the emphasis on 'International Stars', brands on which the company is focusing marketing resource due to their opportunity for international and UK growth.

Promotion of International Stars is supported by Alliance's passive portfolio of established 'Bedrock' products, representing 44% of 2016 sales, and by a number of 'Local Heroes', which include brands such as Lypsyl.

Brand summary

Category	No. of products	Therapy areas/products
International Stars	3	Mother & child, Dermatology, Ophthalmology
Local heroes	>10	Hydromol, Aloclair, Flammazine, Buccastem, Lypsyl
Bedrock	>70	Multiple

Source: Hardman & Co Life Sciences Research

International stars

Kelo-Cote

The star product in the APH portfolio during 2016 was Kelo-Cote, a patented silicone gel product for prevention and treatment of keloid scars, which generated sales of just over £10m (underlying growth +18% vs *pro forma* sales of £7.7m). These sales were achieved across >10 countries, with China responsible for £2.4m (24%), by far the greatest market from a single country. With continued sales expansion in a growth market, coupled with the opportunity for future cross-selling into other areas such as obstetrics and aesthetics, management estimates that Kelo-Cote sales could reach £25m p.a. in five years' time.

Scar formation is a natural part of the healing process that occurs when skin is injured by accident, surgery or disease. After application – gel or spray formulations – Kelo-Cote dries rapidly to form a silicone sheet that is gas permeable, flexible and waterproof, all of which are particularly attractive characteristics that help to provide a protective barrier against chemical, physical and microbial invasion of the scar site, and allow the scar to mature through normal collagen synthesis. Over time, Kelo-Cote improves both the physiological and cosmetic appearance of the scar.

MacuShield

MacuShield, for macular degeneration, a common eye condition that leads to loss of vision among people over 50 years of age, achieved sales of £5.3m in 2016, representing underlying growth of +40% over *pro forma* sales of £3.8m in 2015. Therefore, MacuShield was APH's most accelerated product, responding well to focused marketing activity.

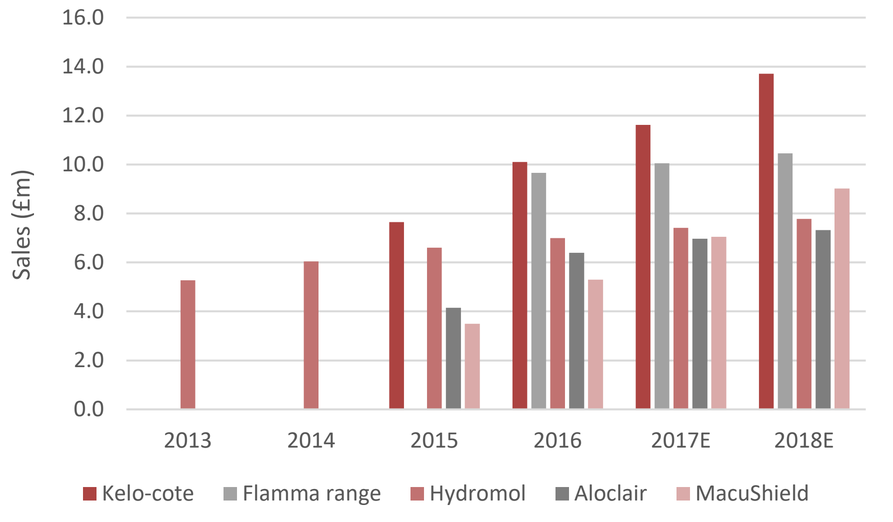
Although there are many nutritional supplements readily available from health food shops and on the internet which claim to help with the preservation of vision, MacuShield is the only significant product on the market which contains a blend of all three carotenoid nutrients to help prevent degeneration of the macula.

In addition, it is priced very competitively compared to products considered to be direct competitors. Therefore, it has the potential to grow globally – with the exception of the Americas and the Caribbean where the rights are owned by another party. The global market for nutritional supplements for eyecare was estimated to be worth $1.1bn in 2015. At present, the segment for products targeting health of the macula is relatively small at just $35m. However, with greater knowledge and education through ophthalmologists and optometrists, this segment is forecast to have strong growth, with MacuShield leading the way with CAGR of +20% over the next five years to give potential annual sales of £12m.

Diclectin

Diclectin is also considered to be one of the 'International stars'. This drug takes APH away from its normal course as it will not be an established in-market brand. Commercialising a product in a new territory will be a new experience and while the potential rewards are considerably higher, up-front investment will be required. Diclectin represents a major growth opportunity for the company and early estimates suggest an annual sales potential in markets for which APH has the commercial rights of £40m. First launch is expected in the UK around the end of 2017, followed by a phased roll-out across the EU approximately 12 months later. APH will receive 10-year marketing exclusivity on UK approval.

Sales development of top products



Source: Alliance Pharma; Hardman & Co Life Sciences Research

Other products of note in 2016 include Aloclair, for mouth ulcers, which had underlying growth of +37% to £6.4m versus a *pro forma* £4.2m in 2015; and Hydromol, with a very steady growth rate of +6% to £7.0m to remain in the top five.

Sinclair compensating APH with £5m cash…

…and full rights to Flammacerium (US)

Warranty settlement

The one product to disappoint last year was Kelo-stretch, a cream for treatment and/or prevention of stretch marks. Expectations were high for this drug which was the sixth largest in the Sinclair portfolio, all of which were in SE Asia. However, after acquisition, there was de-stocking by the third-party distributor, Menarini. This was expected initially to be only a short-term issue and that sales would then recover. In reality, this did not happen and no sales of Kelo-stretch were made during 2016. This prompted a warranty claim against Sinclair Pharma and the two parties have announced a complete settlement to the satisfaction of both parties. It should also be pointed out that only Kelo-stretch was affected and that APH has a good working relation with Manarini for a number of other products in SE Asia.

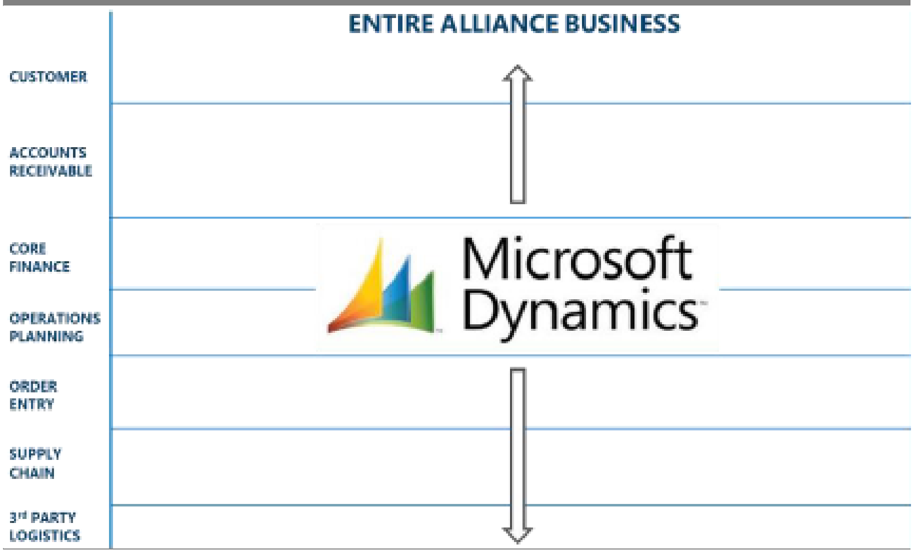
Sinclair has agreed to pay APH £5m cash, effectively reducing the purchase price from £127.5m to £122.5m. In addition, the final royalty rights in the US to Flammacerium, a topical treatment for severe burns and wound management, have been relinquished to APH. The company is currently investigating the US potential of this product. The Flamma range was APH's second largest product group in 2016.

On 30th April 2017, Sinclair paid Alliance £4m and the remaining £1m will be paid by 30th June 2018 – Alliance will use the cash to reduce its bank loans.

Business

APH is a very different business today compared to just 12 months ago. This evolution has been accompanied by the need to manage a more complex multi-location operation, encompassing planning, accounting, controlling and reporting. Legacy business systems employed by Sinclair were totally different to those used by Alliance Pharma, there being no consistency at any stage of operations. The question was whether either approach could support properly the needs of the enlarged entity in the future. Following an extensive review, the Board concluded that an entirely new system was required, with the decision made to invest in Microsoft Dynamics.

Updating business systems



Source: Alliance Pharma

The project to implement the new system has already started and first implementation is scheduled for 2Q'18, with the expectation that it will be fully rolled-out by mid-2018.

The total cost is estimated to be around £1.5m based on £1.2m capital cost and £0.3m in staff training and education programmes. The capital costs will come within capital expenditure in the cashflow statement. There will be ca.£0.3m in SG&A on an annual basis, and the depreciation costs will rise.

Outlook

Newsflow

UK approval of Diclectin

The most important item expected with the newsflow is the impending UK approval of Diclectin. APH originally made its regulatory submission to the MHRA in June 2015. As is usual, the company received and has replied to a first set of questions from the regulator, and, based on the type of question and the depth of its replies, management is not anticipating further material questions to be raised. Importantly, the MHRA did not raise any issues regarding safety. Approval is simply a matter of time. Management's best estimate for completion of the regulatory review is 3Q'17, which would allow the company to launch Diclectin in the UK by the end of the year.

While not wishing to pre-empt the machinations of the regulators, APH has recruited already a market access team and set in motion advisory panels, market research, and other pre-launch activities. This process is taking APH into a completely new area and investment in marketing in 2017 and 2018 will more than offset any sales of Diclectin achieved.

Launch in Europe likely to follow in late 2018

For the rest of Europe, the UK will act as the reference country and drive the process through the European Medicines Agency (EMA). Once approved in EU – expected end-2018 – APH is likely to stagger its launches, starting with Germany and the RoI and then expanding out on a country-by-country basis.

Portfolio newsflow

Date	Event
End 2017	UK approval and launch of Diclectin for nausea & vomiting in pregnancy (NVP)
2H 2018	EU launch of Diclectin for NVP

Source: Hardman & Co Life Sciences Research

AGM

The company is holding its AGM of shareholders on 25th May 2017. It is usual for management to release a short statement to the market about current trading and is likely to focus on the performance of its key international growth brands.

Detailed financials

Profit & Loss

- **Underlying growth** – Sales are forecast to grow +5-6% in 2017, generating +2.0% EPS growth to 4.22p. Includes £0.1m Diclectin sales in UK only.
- **SG&A** – In the short term, profit growth will be constrained by investment in marketing of Kelo-Cote and MacuShield and in commercialisation of Diclectin
- **Warranty receipt –** £5m cash allocated to 2017 exceptional items

Profit & Loss account

Year end Dec (£m)	2014	2015	2016	2017E	2018E	2019E
GBP:EUR	-	1.284	1.223	1.223	1.223	1.223
GBP:USD	-	1.432	1.354	1.354	1.354	1.354
Sales	**43.5**	**48.3**	**97.5**	**103.0**	**112.0**	**121.0**
Cost of goods	-18.5	-19.6	-42.6	-44.7	-48.3	-51.6
Gross profit	25.0	28.7	54.8	58.3	63.7	69.4
Admin & marketing	-12.5	-15.6	-28.8	-29.5	-32.7	-34.1
Underlying EBITDA	**13.2**	**13.6**	**26.7**	**29.6**	**32.6**	**37.2**
EBITDA margin	30.2%	28.1%	27.4%	28.8%	29.1%	30.8%
Depreciation	-0.3	-0.3	-0.3	-0.4	-1.1	-1.4
Amortisation	-0.5	-0.2	-0.1	-0.2	-0.2	-0.2
Other income	0.0	0.0	0.0	0.0	0.0	0.0
Share of JV profits/(loss)	0.3	0.2	0.3	0.3	0.3	0.3
Underlying EBIT	**12.4**	**13.1**	**26.3**	**29.0**	**31.3**	**35.6**
Share based costs	-0.6	-0.6	-0.7	-1.2	-1.4	-1.5
Exceptional items	-0.6	4.5	0.0	5.0	0.0	0.0
Statutory EBIT	11.2	17.0	25.6	32.8	29.9	34.1
Net interest	-1.0	-1.1	-2.8	-3.8	-3.0	-2.2
Other financials	0.0	0.1	-0.6	0.0	0.0	0.0
U/lying pre-tax profit	**10.7**	**12.8**	**23.5**	**25.2**	**28.3**	**33.4**
Extraordinary items	0.0	0.0	0.0	0.0	0.0	0.0
Reported pre-tax	**10.2**	**15.9**	**22.2**	**29.0**	**26.9**	**31.9**
Underlying tax	-2.0	-1.4	-4.1	-5.3	-6.1	-7.2
Exceptional tax	0.3	-1.1	0.0	0.0	0.0	0.0
Tax payable/credit	-1.8	-2.5	-4.1	-5.3	-6.1	-7.2
Tax rate	17%	16%	19%	18%	23%	23%
Underlying net income	**8.7**	**11.5**	**19.4**	**19.9**	**22.2**	**26.2**
Statutory net income	8.4	13.5	18.1	23.7	20.8	24.7
Ordinary shares:						
Period-end (m)	264.1	468.2	472.6	473.4	473.4	473.4
Weighted average (m)	264.1	272.7	469.4	472.6	473.4	473.4
Fully diluted (m)	265.6	299.2	505.0	508.1	508.9	508.9
U/lying basic EPS (p)	**3.29**	**4.20**	**4.14**	**4.22**	**4.69**	**5.53**
Statutory basic EPS (p)	3.17	4.93	3.85	5.02	4.40	5.21
U/lying fully-dil. EPS (p)	**3.27**	**3.83**	**3.85**	**3.92**	**4.37**	**5.14**
Stat. fully-dil. EPS (p)	3.16	4.50	3.58	4.67	4.09	4.85
DPS (p)	**1.00**	**1.10**	**1.21**	**1.33**	**1.46**	**1.61**

Source: Hardman & Co Life Sciences Research

Balance sheet

- **Net debt** – At 31st December 2016, APH had net debt of -£76.1m on its balance sheet, negatively impacted by weak sterling, but a decrease of -4% at CER
- **Loans –** Will be reduced by at least £4m in 2017 and £1m in 2018 with warranty cash settlement
- **ROIC** – Has improved to 7.6% during, and expected to continue rising as acquired products gain sales traction and loans are paid off

Balance sheet

@31st December (£m)	2014	2015	2016	2017E	2018E	2019E
Shareholders' funds	70.8	162.4	179.3	196.7	211.1	228.8
Cumulated goodwill	3.6	26.0	26.0	26.0	26.0	26.0
Total equity	74.4	188.5	205.3	222.7	237.2	254.8
Share capital	2.6	4.7	4.7	4.7	4.7	4.7
Reserves	68.1	157.8	174.5	192.0	206.4	224.1
Provisions/liabilities	0.4	1.5	1.7	1.7	1.7	1.7
Deferred tax	6.1	37.0	29.7	29.7	29.7	29.7
Long-term loans	19.2	59.0	57.6	41.0	26.9	16.8
Short-term debt	3.3	15.8	25.8	25.8	21.8	11.7
less: Cash	1.4	3.2	7.2	7.2	7.2	7.2
Invested capital	**98.4**	**272.5**	**286.8**	**287.7**	**284.1**	**281.4**
Fixed assets	0.4	1.0	1.8	3.4	3.7	3.3
Intangible assets	85.3	233.9	238.5	238.5	238.5	238.5
JV assets	2.7	2.9	2.9	2.9	2.9	2.9
Goodwill	3.6	26.0	26.0	26.0	26.0	26.0
Inventories	5.9	12.9	15.4	16.2	17.6	19.1
Trade debtors	*6.6*	*8.8*	*20.5*	*21.7*	*23.6*	*25.5*
Other debtors	*1.7*	*2.8*	*6.2*	*6.5*	*7.1*	*7.7*
Tax liability/credit	*-1.0*	*-2.1*	*-2.5*	*-2.0*	*-2.1*	*-2.2*
Trade creditors	*-1.7*	*-1.2*	*-5.7*	*-5.9*	*-6.4*	*-6.8*
Other creditors	*-5.2*	*-12.7*	*-16.3*	*-19.6*	*-26.9*	*-32.5*
Debtors less creditors	0.4	-4.3	2.2	0.7	-4.7	-8.3
Invested capital	**98.4**	**272.5**	**286.8**	**287.7**	**284.1**	**281.4**

Source: Hardman & Co Life Sciences Research

Key metrics

Year end Dec (£m)	2014	2015	2016	2017E	2018E	2019E
Net cash/(debt)	-21.1	-71.5	-76.1	-59.6	-44.4	-27.6
Net debt/EBITDA (x)	1.6	5.3	2.8	2.0	1.4	0.7
Net debt/equity (%)	-28%	-38%	-37%	-27%	-19%	-11%
NAV/share (p)	27	35	38	42	44	48
Stock days	48	71	53	56	55	55
Debtor days	66	58	77	75	71	64
Creditor days	33	57	48	48	48	48
Interest cover (x)	11.4	10.8	9.2	7.7	10.3	15.2
Dividend cover (x)	3.3	3.8	3.4	3.2	3.2	3.4
Cap-ex/depreciation (x)	0.4	2.7	3.4	4.6	1.3	0.7
NOPAT	10	12	22	23	25	28
After-tax ROIC	10.2%	4.3%	7.6%	8.0%	8.6%	9.7%
Cap-ex/sales (%)	0.3%	1.3%	1.2%	1.9%	1.3%	0.8%

Source: Hardman & Co Life Sciences Research

Cashflow

- Investment in business system infrastructure has been included in capital expenditure with an associated increase in subsequent depreciation

Cashflow						
Year end Dec (£m)	**2014**	**2015**	**2016**	**2017E**	**2018E**	**2019E**
Operating profit	12.4	13.1	26.3	29.0	31.3	35.6
Depreciation	0.3	0.2	0.3	0.4	1.1	1.4
Amortisation	1.1	0.2	0.1	0.2	0.2	0.2
Inventories	*-0.4*	*-7.0*	*-2.4*	*-0.9*	*-1.4*	*-1.4*
Receivables	*2.8*	*2.3*	*-14.1*	*1.2*	*0.0*	*-1.0*
Payables	*-1.8*	*-3.3*	*10.1*	*-0.3*	*-0.5*	*-0.4*
Change in working capital	-1.8	-8.0	-6.5	0.0	-1.9	-2.9
Exceptionals/provisions	0.0	4.5	0.0	4.0	1.0	0.0
Other	1.4	-0.1	-0.3	0.0	0.0	0.0
Cashflow from ops.	**13.4**	**9.9**	**20.0**	**33.7**	**31.7**	**34.4**
Net interest	-0.9	-1.0	-3.0	-3.8	-3.0	-2.3
Tax paid/received	-2.0	-1.9	-3.0	-4.0	-5.4	-7.1
Operational cashflow	**10.5**	**7.0**	**13.9**	**25.9**	**23.3**	**24.9**
Capital expenditure	-0.1	-0.6	-1.1	-2.0	-1.5	-1.0
Capitalised R&D	-0.1	0.0	-0.3	-0.3	-0.3	-0.3
Sale of fixed assets	0.0	0.0	0.0	0.0	0.0	0.0
Free cashflow	**10.3**	**6.4**	**12.5**	**23.7**	**21.5**	**23.7**
Acquisitions	-3.3	-133.9	-6.0	-1.4	0.0	0.0
Disposals	0.0	0.0	0.0	0.0	0.0	0.0
Dividends	-2.4	-2.6	-5.2	-5.7	-6.3	-6.9
Other investments	-0.5	0.0	-1.0	0.0	0.0	0.0
CF after investments	**4.1**	**-130.1**	**0.3**	**16.5**	**15.2**	**16.7**
Share repurchases	0.0	0.0	0.0	0.0	0.0	0.0
Capital increases	0.0	79.8	1.3	0.0	0.0	0.0
Currency effect	0.0	-0.1	-6.2	0.0	0.0	0.0
Change in net debt	**4.1**	**-50.4**	**-4.6**	**16.5**	**15.2**	**16.7**
Opening net cash/(debt)	-25.2	-21.1	-71.6	-76.1	-59.6	-44.4
Closing net cash/(debt)	**-21.1**	**-71.6**	**-76.1**	**-59.6**	**-44.4**	**-27.6**
Hardman CF/share (p)	3.9	2.3	2.7	5.0	4.5	5.0

Source: Hardman & Co Life Sciences Research

Changes to forecasts

Publication of full results for 2016 and the annual report have not resulted in any material changes to our forecasts.

It should be noted that, while investment in the UK launch of Diclectin has been estimated and included in our forecasts, similar investment in the subsequent European launches has not yet been made. This will be done once we have visibility on the timing of launches in the different countries, which are expected to commence late 2H’18.

Company information

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	Andrew Smith	C	C	M
Chief Executive Officer	John Dawson	M		
Chief Financial Officer	Andrew Franklin			
Deputy CEO	Peter Butterfield			
Non-executive director	Thomas Casdagli	M	M	
Non-executive director	Nigel Clifford	M	M	M
Non-executive director	David Cook	M	M	C

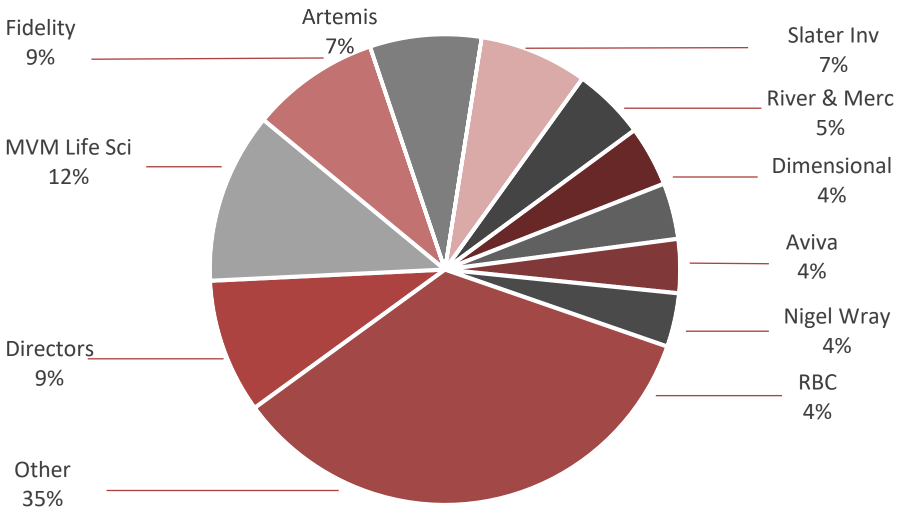
M = member; C = chair
Source: Company reports

Share capital

Number of Ordinary shares in issue at 22nd May 2017: 473,391,681

Number of options outstanding: 4.82 million

Key shareholders (@ 22nd May 2017)



Source: Company website; Hardman & Co Life Sciences Research

Notes

Disclaimer

Hardman & Co provides professional independent research services. Whilst every reasonable effort has been made to ensure that the information in the research is correct, this cannot be guaranteed.

The research reflects the objective views of the analysts named on the front page. However, the companies or funds covered in this research may pay us a fee, commission or other remuneration in order for this research to be made available. A full list of companies or funds that have paid us for coverage within the past 12 months can be viewed at http://www.hardmanandco.com/

Hardman & Co has a personal dealing policy which debars staff and consultants from dealing in shares, bonds or other related instruments of companies which pay Hardman for any services, including research. They may be allowed to hold such securities if they were owned prior to joining Hardman or if they were held before the company appointed Hardman. In such cases sales will only be allowed in limited circumstances, generally in the two weeks following publication of figures.

Hardman & Co does not buy or sell shares, either for its own account or for other parties and neither does it undertake investment business. We may provide investment banking services to corporate clients.

Hardman & Co does not make recommendations. Accordingly, we do not publish records of our past recommendations. Where a Fair Value price is given in a research note 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 but has no scheduled commitment and may cease to follow these securities/companies without notice.

Nothing in this report should be construed as an offer, or the solicitation of an offer, to buy or sell securities by us.

This information is not tailored to your individual situation and the investment(s) covered may not be suitable for you. You should not make any investment decision without consulting a fully qualified financial adviser.

This report may not be reproduced in whole or in part without prior permission from Hardman &Co.

Hardman Research Ltd, trading as Hardman & Co, is an appointed representative of Capital Markets Strategy Ltd and is authorised and regulated by the Financial Conduct Authority (FCA) under registration number 600843. Hardman Research Ltd is registered at Companies House with number 8256259. However, the information in this research report is not FCA regulated because it does not constitute investment advice (as defined in the Financial Services and Markets Act 2000) and is provided for general information only.

Hardman & Co Research Limited (trading as Hardman & Co)
35 New Broad Street
London
EC2M 1NH
T +44 (0)20 7194 7622

Follow us on Twitter @HardmanandCo

(Disclaimer Version – Effective from May 2017)

Hardman Team

Management Team

+44 (0)20 7194 7622

John Holmes	jh@hardmanandco.com	+44 (0)207 194 7629	Chairman
Keith Hiscock	kh@hardmanandco.com	+44 (0)207 194 7630	CEO

Marketing / Investor Engagement

+44 (0)20 7194 7622

Richard Angus	ra@hardmanandco.com	+44 (0)207 194 7635
Max Davey	md@hardmanandco.com	+44 (0)207 194 7622
Antony Gifford	ag@hardmanandco.com	+44 (0)207 194 7622
Vilma Pabilionyte	vp@hardmanandco.com	+44 (0)207 194 7637
Gavin Laidlaw	gl@hardmanandco.com	+44 (0)207 194 7627
Ann Hall	ah@hardmanandco.com	+44 (0)207 194 7622

Analysts

+44 (0)20 7194 7622

Agriculture

Doug Hawkins	dh@hardmanandco.com
Yingheng Chen	yc@hardmanandco.com
Thomas Wigglesworth	tcw@hardmanandco.com

Bonds

Brian Moretta	bm@hardmanandco.com
Mark Thomas	mt@hardmanandco.com
Chris Magennis	cm@hardmanandco.com

Building & Construction

Tony Williams	tw@hardmanandco.com
Mike Foster	mf@hardmanandco.com

Consumer & Leisure

Mike Foster	mf@hardmanandco.com
Steve Clapham	sc@hardmanandco.com
Jason Streets	js@hardmanandco.com

Financials

Brian Moretta	bm@hardmanandco.com
Mark Thomas	mt@hardmanandco.com

Life Sciences

Martin Hall	mh@hardmanandco.com
Gregoire Pave	gp@hardmanandco.com
Dorothea Hill	dmh@hardmanandco.com

Media

Derek Terrington	dt@hardmanandco.com

Mining

Paul Singer	if@hardmanandco.com

Oil & Gas

Angus McPhail	am@hardmanandco.com

Property

Mike Foster	mf@hardmanandco.com

Services

Mike Foster	mf@hardmanandco.com

Special Situations

Steve Clapham	sc@hardmanandco.com
Paul Singer	ps@hardmanandco.com

Tax Enhanced Services

Brian Moretta	bm@hardmanandco.com
Chris Magennis	cm@hardmanandco.com

Utilities

Nigel Hawkins	nh@hardmanandco.com

Hardman & Co

35 New Broad Street
London
EC2M 1NH

Tel: +44(0)20 7194 7622

www.hardmanandco.com

hardman&co