



Source: Eikon Thomson Reuters

## Market data

EPIC/TKR	APH
Price (p)	76.5
12m High (p)	78.4
12m Low (p)	47.0
Shares (m)	475.0
Mkt Cap (£m)	363.4
EV (£m)	435.7
Free Float*	65%
Market	AIM

\*As defined by AIM Rule 26

## Description

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

## Company information

CEO	John Dawson
COO	Peter Butterfield
CFO	Andrew Franklin
Chairman	David Cook

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[www.alliancepharmaceuticals.com](http://www.alliancepharmaceuticals.com)

## Key shareholders

Directors	12.5%
MVM Life Sciences	11.7%
Artemis	10.1%
Fidelity	9.4%
Slater Invests.	7.3%
River & Merc	5.0%
Strategic Equity	3.0%

## Diary

May-18	AGM
Jly-18	1H'18 trading update

## Analysts

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## Alliance Pharma

### Entering the US market

Alliance Pharma (APH) is continuing with its buy-and-build strategy having evolved through 35 acquisitions over a period of 20 years into a profitable, cash-generative, specialty pharma business. The company has a mix of international growth brands – Kelo-cote and MacuShield – and a bedrock of solid local low-growth products. Full-year results supported the January trading statement, with strong sales of Kelo-cote and MacuShield underpinning EBITDA growth, and helping to generate strong underlying operational cashflow. The acquisition of Vamousse (third international growth brand) appears to be integrating well already and opens up the US market.

- ▶ **Strategy:** Since inauguration, APH has adopted a buy-and-build model, with 35 deals over 20 years assembling a portfolio of >90 products and establishing a strong track record. It is accelerating growth through investing in multi-market brands, with infrastructure supported by its bedrock products.
- ▶ **2017 results:** APH continued its year-on-year growth trend with group sales of £103.3m (£97.5m), an increase of 6%. At constant currency, sales grew 3%, benefiting from exceptional sales of its two international growth brands Kelo-cote (+34% to £13.3m) and MacuShield (+38% to £7.3m).
- ▶ **Net debt:** Strong operational cashflow reduced underlying group debt ahead of expectations. However, end-of-period acquisitions were financed in cash, giving net debt of -£72.3m at 31<sup>st</sup> December 2017. Net debt/EBITDA was 2.5x, comfortably within APH's 3.0x covenant limit.
- ▶ **Recent acquisitions:** Towards the end of 2017, APH completed two product acquisitions: Vamousse (head lice), its third international growth brand, and Ametop (local anaesthetic gel). Initial considerations of £9.7m and £5.6m, respectively, and inventories of £0.7m, were paid from cash resources.
- ▶ **Investment summary:** Recent acquisitions are forecast to boost APH to generate underlying CAGR of 8% in both sales and EPS over the next three years. On the back of this solid performance, the company is expected to continue with its progressive dividend policy. The shares are trading on a 2018E P/E of 16.1x and carry a prospective dividend yield of 1.9%, covered 3.3x.

## Financial summary and valuation

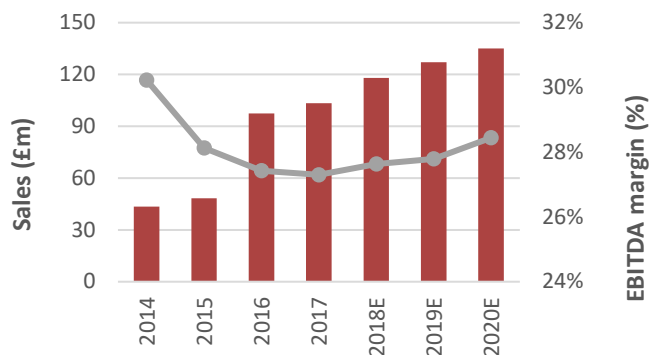
Year-end Dec (£m)	2015	2016	2017	2018E	2019E	2020E
Sales	48.3	97.5	103.3	118.0	127.0	135.0
EBITDA (underlying)	13.6	26.7	28.2	32.6	35.3	38.4
Reported pre-tax profit	15.2	22.2	*28.4	**28.4	29.9	33.7
Underlying EPS (p)	4.0	4.0	4.2	4.8	5.3	5.9
Reported EPS (p)	4.7	3.9	6.1	4.8	5.0	5.6
DPS (p)	1.1	1.2	1.3	1.5	1.6	1.7
Net (debt)/cash	-71.5	-76.1	-72.3	-54.0	-38.2	-21.1
Net debt/EBITDA (x)	5.3	2.8	2.6	1.7	1.1	0.6
P/E (x)	19.3	19.2	18.0	16.1	14.5	12.9
EV/sales (x)	8.9	4.4	4.2	3.7	3.4	3.2
EV/EBITDA (x)	31.8	16.2	15.3	13.2	12.2	11.3
Dividend yield (%)	1.4	1.6	1.7	1.9	2.1	2.3

\*Includes £5m Sinclair settlement less costs;

\*\*Includes £1.5m profit on disposal of 60% share of Unigreg JV

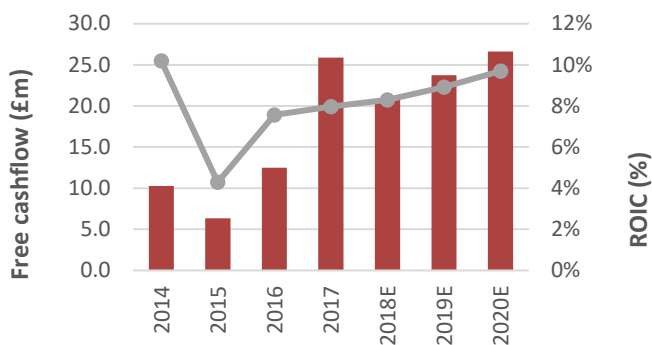
Source: Hardman & Co Life Sciences Research

### Sales and EBITDA margin



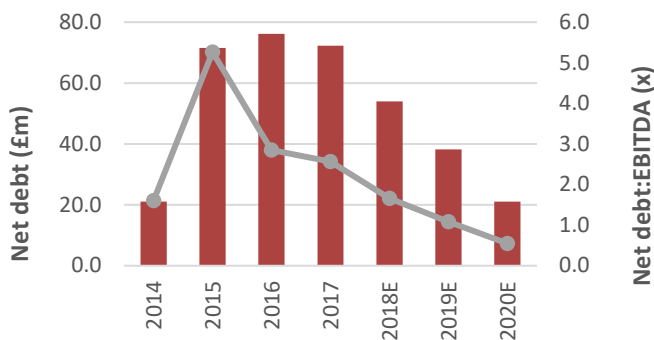
- ▶ Underlying sales growth of 3.0% for fiscal 2017, boosted at the reported level by forex
- ▶ The two international brands (Kelo-cote and MacuShield) are driving sales growth and Vamousse should add to this in the future
- ▶ EBITDA margin is before share-based payments
- ▶ Gross margins are rising modestly as the contribution from the international stars increases each year

### Free cashflow and ROIC



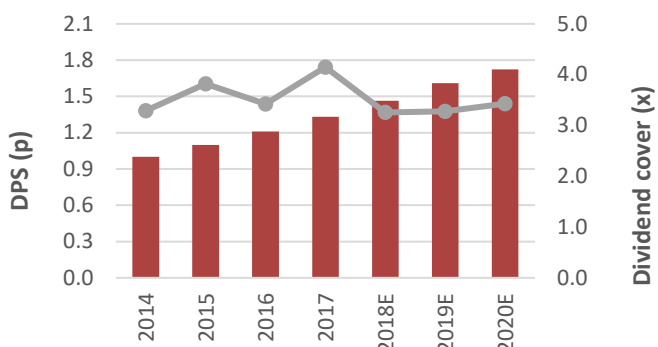
- ▶ APH is strongly cash generative, with three year forecasts in the range £23m-£27m p.a.
- ▶ Driven by the international star brands and the sustainable bedrock of established products
- ▶ Operating cashflow conversion is typically ca.90% of EBIT
- ▶ Dips in ROIC are caused by the timing of acquisitions, particularly if made towards the end of a financial year

### Net debt and Net debt/EBITDA



- ▶ Net debt at 31st December 2017 was ca.£2m better than expected, at -£72.3m, due largely to the positive underlying operational cashflow
- ▶ Financial covenants have been increased for the life of the Credit Facility from 2.5x to 3.0x to cover for acquisition spikes; in fiscal 2018, net debt/EBITDA cover is forecast to be ca.1.7x
- ▶ Minimum interest cover (EBITDA/interest cost) of 4.0x – this is expected to be 10.5x in 2018

### DPS and dividend cover



- ▶ Progressive dividend policy since payments commenced in 2009
- ▶ Full-year dividend of 1.331p (+10%) – forecast to rise to 1.46p for 2018
- ▶ Unusually high dividend cover of 4.1x in fiscal 2017 due to tax changes; expected to revert to normalised levels in fiscal 2018
- ▶ There is scope to increase the dividend

Source: Company data, Hardman & Co Life Sciences Research

## Full-year 2017 results

### Key features

- ▶ **Sales:** Underlying sales growth of 3% was boosted by currency to a reported figure of £103.3m (£97.5m), as described in our January note on the trading update '2017: strong operational cashflow' published on 29<sup>th</sup> January 2018.
- ▶ **Growth drivers:** The main driver of growth was sales of APH's two international star brands, MacuShield, which increased 37% to £7.3m, and Kelo-cote, which increased 34% to £13.3m. These contributed 20% of 2017 group sales.
- ▶ **Forex:** Reported sales benefited from both US\$ and Euro weakness, which added £2.7m. Readers are reminded that overseas costs will also be higher due to the weakness of sterling, and vice versa when sterling strengthens.
- ▶ **Gross margin:** In 2017, the gross margin increased to 57.1% (56.3%) in line with the modest rising trend as the higher margin international star brands deliver sales growth.
- ▶ **SG&A:** Investment supporting growth of its international star brands resulted in a 9.9% increase in operating costs in 2017 to -£31.7m (-£28.8m).
- ▶ **EBITDA:** Underlying EBITDA, as calculated by Hardman & Co, which excludes share-based costs and one-off exceptional receipts increased 6% to £28.2m (£26.7m).
- ▶ **EPS:** Reported EPS benefited from tax reforms in the US and France, rising 58% to 6.10p (3.85p). Underlying EPS using a normalised tax rate of 19.1% is more representative, and grew 6.6% to 4.24p from 3.98p in 2016 on the same basis.
- ▶ **Cash generation:** The rising contribution to sales of high-margin growth brands, coupled with close control of working capital, led to a strong underlying generation of operational cashflow.
- ▶ **Acquisitions:** Vamousse was acquired in December 2017; as the third international growth brand it should add to future cash generation. An initial stocking order added £0.1m to sales in 2017. Together with Ametop, the acquisitions had a total cash cost of £16.0m incl. £0.7m of inventory.
- ▶ **Net debt:** The resulting group net debt at 31<sup>st</sup> December 2017 was -£72.3m (-£76.1m), better than expected by £1.6m. Net debt to EBITDA was 2.5x (2.8x), 2.1x excluding acquisitions, and comfortably below the 3.0x limit.
- ▶ **Diclectin:** Resubmission with additional data to the MHRA supporting licensing of Diclectin in the UK has taken place. An outcome is expected during Q2'18-Q3'18 – if successful, we would expect a launch in late 2018.

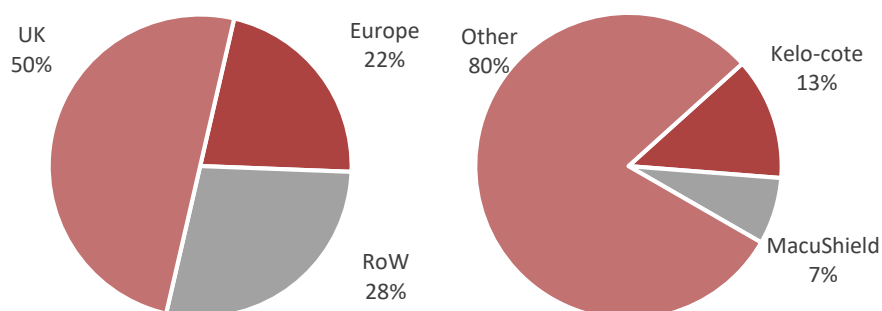
Full-year 2017 – actual vs expectations*					
Year-end Dec (£m)	2016 actual	2017 actual	CER growth %	2017 forecast	Delta Δ
Kelo-cote	10.1	13.3	31.7%	12.7	+0.6
MacuShield	5.3	7.3	37.7%	7.0	+0.3
Group sales	40.4	103.3	3.1%	103.5	+2.2
Underlying EBITDA	26.7	28.2	8.4%	29.0	-0.5
Underlying EPS (p)	3.98	4.24	+6.6%	4.3	0.0
Statutory EPS (p)	3.85	6.10			
Net cash/(debt)	-76.1	-72.3	nm	-73.9	+1.6

\*Expectations in January, before the trading update  
Source: Alliance Pharma; Hardman & Co Life Sciences Research

## Operational update

APH hit an important milestone in 2017, with sales passing £100m for the first time, led by its strategy to expand its international star brands. After 20 years of building the company, it is now a highly capable and scalable international operation. The UK remains an important market for the group generating 50% of sales, but increased internationalisation is expected to see this continue to trend downwards. The company's two higher margin international star brands, Kelo-cote and MacuShield, represented 20% of group sales in 2017.

### Alliance Pharma sales 2017



2017 sales: £103.3m

Source: Hardman & Co Life Sciences Research

### Buy-and-build strategy

APH has been built through a series of 35 acquisitions over 20 years, with Cambridge Laboratories (2010) and the Sinclair Pharma portfolio (2015) being transformative. The former for adding a significant UK portfolio and the latter for taking APH into international markets. At the end of fiscal 2017, APH made two further acquisitions. The company is now a blend of international star brands supported by a portfolio of local hero and stable bedrock products which support infrastructure and provide important cash generation.

#### *Focus on international growth*

At the full-year results presentation, management reiterated its buy-and-build strategy, with particular emphasis on a growth strategy through the acquisition of more products with international growth potential, as opposed to further bedrock products. For example, the addition of Vamousse for treating head lice from TyraTech (TYR.L) in December 2017, represents APH's third international star brand – see our report '*Acquisitions to boost growth prospects*' published on 11<sup>th</sup> January 2018 for more details<sup>1</sup>. Any further such deals in the coming year will transition the company into its next phase, as an international specialty pharma growth business marketing a balanced mix of consumer and prescription medicinal products.

#### *US market entry*

Vamousse is important for two reasons. First, it added a third international star to the product portfolio. Secondly, with 83% of sales currently being generated in the US, it provides a strategic entry point into this important pharmaceutical market.

<sup>1</sup><http://www.hardmanandco.com/docs/default-source/company-docs/alliance-pharma-documents/11.01.18-acquisitions-to-boost-growth-prospects.pdf>

To maximise this opportunity, APH has established a US affiliate, Alliance Pharma Inc, in North Carolina, and has appointed the former US marketing director for the brand as its country manager. These actions will support the marketing of Vamousse and provide a springboard for additional future US launches. Further product acquisitions are more likely to be consumer oriented rather than Rx.

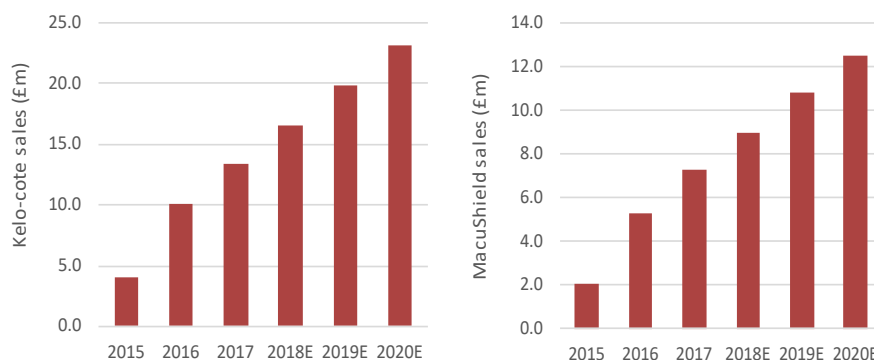
## International stars

### *Kelo-cote*

Since acquisition, the performance of Kelo-cote has been exceptional and it is comfortably APH's biggest brand. Sales of the product have benefited from its three differentiating features: i) dries quicker; ii) provides better heal rates; and iii) more cosmetically acceptable. Given that the product has strong support from KOLs and that sales are predominantly derived from Asia Pacific, there is much more to go for:

- ▶ Under-trading in the UK and Europe.
- ▶ Repatriation of distribution agreements in France, DACH territories, Italy and the UK to allow direct commercialisation.
- ▶ Under-represented in direct to consumer market – greater use of Amazon.
- ▶ Launch of new website.

### Sales evolution of international stars



Source: Hardman & Co Life Sciences Research

### *MacuShield*

MacuShield has also performed extremely well since acquisition, again based on strong properties and characteristics, notably the only product in its class to replenish all three ocular pigments to protect the macular. However, virtually all the sales are derived from the UK and Ireland. Therefore, APH is looking to launch in a number of territories where it has strong in-house commercial capability and where it has a strong existing network of distributors.

### *Diclectin*

APH and its partner, Duchesnay Inc (Canada), have been engaged with the MHRA regarding the licensing of Diclectin for the treatment of nausea and vomiting in pregnancy in Europe. Following discussions, a regulatory submission has been re-filed and there is cautious optimism that the product might receive approval during 2018. However, this remains a potential opportunity and at this stage, therefore our forecasts do not include expectations of a positive outcome. Moreover, it should be noted that any benefit to sales would be more than offset by short-term launch and marketing costs.

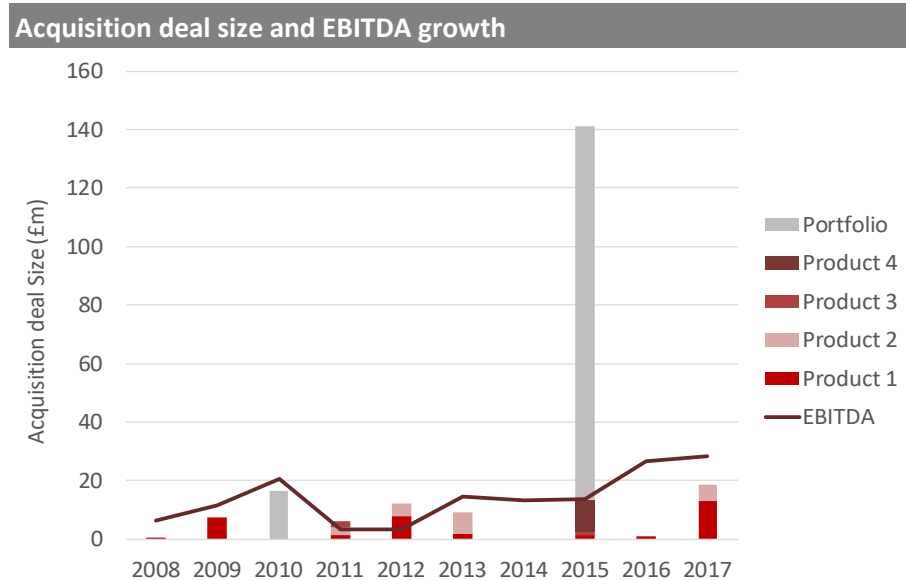
## Financial update

The financial performance of the group was presented in a very clear and transparent way. In two of the last three financial years, APH received a benefit from one-off settlements – compensation from Sanofi (2015) and warranty settlement from Sinclair Pharma (2017) – both of which were excluded to provide numbers that fully reflected the underlying performance. In 2017, the group reported solid underlying growth in sales, EBITDA and EPS, and strong cash generation. This provided the foundation for a continuation of the progressive dividend policy.

In 2017, the group received also a one-time benefit from the reduction in tax rates in both France and the US, which boosted reported EPS.

### EBITDA and cashflow

APH was strongly cash generative during 2017, generating £30.9m (excluding the Sinclair warranty settlement, and before interest charges and tax) from operations. The company was clearly on course to reduce its net debt/EBITDA ratio to around its target level of 2.0x by the end of 2017. However, the acquisition of Ametop and Vamousse for cash considerations during December 2017 increased period-end debt levels, with adjusted net debt/EBITDA emerging at 2.46x. The company had renegotiated its banking covenants to 3.0x in anticipation of this. In the absence of any further acquisitions for cash, APH is forecast to reduce net debt/EBITDA to below 2.0x in 2018.



Portfolio: Cambridge Laboratories/Sinclair Pharma acquisitions, strategic deals involving equity

Source: Hardman & Co Life Sciences Research

### Systems

Given that APH has evolved into a multi-location, multi-product operation, the decision was made to invest in a new enterprise resource planning and financial system, Microsoft Dynamics AX, which is scheduled to be operational by the end of 2018, providing a unified and scalable platform suitable for the future growth of the business.

## Financial forecasts

### Profit & Loss

- **Margins:** APH is expected to increase gross margins through increased sales of higher margin international star brands, but this will be offset, in part, by higher marketing expenditure.
- **Forecasts:** There have been no material changes to our (constant currency) forecasts following publication of the full-year 2017 results.

Profit & Loss account						
Year-end Dec (£m)	2015	2016	2017	2018E	2019E	2020E
GBP:EUR	1.284	1.223	1.141	1.141	1.141	1.141
GBP:USD	1.432	1.354	1.289	1.289	1.289	1.289
<b>Sales</b>	<b>48.3</b>	<b>97.5</b>	<b>103.3</b>	<b>118.0</b>	<b>127.0</b>	<b>135.0</b>
Cost of goods	-19.6	-42.6	-44.4	-49.2	-52.8	-55.3
Gross profit	28.7	54.8	59.0	68.8	74.2	79.7
Admin & marketing	-15.6	-28.8	-31.7	-37.6	-40.6	-43.0
<b>Underlying EBITDA</b>	<b>13.6</b>	<b>26.7</b>	<b>28.2</b>	<b>32.6</b>	<b>35.3</b>	<b>38.4</b>
EBITDA margin	28.1%	27.4%	27.3%	27.6%	27.8%	28.4%
Statutory EBITDA	17.5	26.0	31.1	32.6	33.8	36.9
Depreciation	-0.3	-0.3	-0.7	-1.2	-1.5	-1.5
Amortisation	-0.2	-0.1	-0.3	-0.2	-0.2	-0.2
Other income	0.0	0.0	0.0	0.0	0.0	0.0
Share of JV profits/(loss)	0.2	0.3	0.0	0.0	0.0	0.0
<b>Underlying EBIT</b>	<b>13.3</b>	<b>26.3</b>	<b>27.3</b>	<b>31.2</b>	<b>33.6</b>	<b>36.7</b>
Share-based costs	-0.6	-0.7	-1.5	-1.5	-1.5	-1.5
Exceptional items	4.5	0.0	4.4	1.5	0.0	0.0
Statutory EBIT	17.0	25.6	30.2	31.2	32.1	35.2
Net interest	-1.1	-2.8	-2.4	-2.9	-2.3	-1.6
Other financials	-0.7	-0.6	0.6	0.1	0.1	0.1
<b>U/lying pre-tax profit</b>	<b>12.2</b>	<b>23.5</b>	<b>24.8</b>	<b>28.3</b>	<b>31.3</b>	<b>35.1</b>
Extraordinary items	0.0	0.0	0.0	0.0	0.0	0.0
<b>Reported PBT</b>	<b>15.2</b>	<b>22.2</b>	<b>28.4</b>	<b>28.4</b>	<b>29.9</b>	<b>33.7</b>
Underlying tax	-1.4	-4.9	-4.8	-5.7	-6.3	-7.0
Underlying tax rate	11.3%	20.7%	19.1%	20.0%	20.0%	20.0%
Exceptional tax	-1.1	0.8	5.3	0.0	0.0	0.0
Tax payable/credit	-2.5	-4.1	0.5	-5.7	-6.3	-7.0
<b>Underlying net income</b>	<b>10.8</b>	<b>18.7</b>	<b>20.1</b>	<b>22.6</b>	<b>25.1</b>	<b>28.1</b>
Statutory net income	12.7	18.1	28.9	22.7	23.7	26.7
<b>Ordinary 1p shares:</b>						
Period-end (m)	468.2	472.6	475.0	475.0	475.0	475.0
Weighted average (m)	272.7	469.4	473.8	475.0	475.0	475.0
Fully-diluted (m)	299.2	505.0	513.7	514.9	514.9	514.9
<b>U/lying basic EPS (p)</b>	<b>3.97</b>	<b>3.98</b>	<b>4.24</b>	<b>4.76</b>	<b>5.27</b>	<b>5.91</b>
Statutory basic EPS (p)	4.65	3.85	6.10	4.78	4.98	5.62
<b>U/lying fully-dil. EPS (p)</b>	<b>3.62</b>	<b>3.70</b>	<b>3.91</b>	<b>4.39</b>	<b>4.87</b>	<b>5.45</b>
Stat. fully-dil. EPS (p)	4.24	3.58	5.63	4.41	4.60	5.18
<b>DPS (p)</b>	<b>1.10</b>	<b>1.21</b>	<b>1.33</b>	<b>1.46</b>	<b>1.61</b>	<b>1.72</b>

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

\*\*Profit on disposal of 60% share of Unigreg JV

Source: Hardman & Co Life Sciences Research

## Balance sheet

- ▶ **Net debt:** Net debt at 31<sup>st</sup> December 2017 was -£72.3m, which was better-than-expected, even after the cash outflow of £16.0m in December to fund the two product acquisitions.
- ▶ The rise in intangible assets is primarily related to the brands and distribution rights with respect to the acquired assets.

Balance sheet						
@31st December (£m)	2015	2016	2017	2018E	2019E	2020E
Shareholders' funds	162.4	179.3	203.4	219.2	235.2	253.7
Cumulated goodwill	26.0	26.0	26.0	26.0	26.0	26.0
Total equity	188.5	205.3	229.4	245.2	261.2	279.7
Share capital	4.7	4.7	4.8	4.8	4.8	4.8
Reserves	157.8	174.5	198.6	214.4	230.4	248.9
Provisions/liabilities	1.5	1.7	3.4	3.4	3.4	3.4
Deferred tax	37.0	29.7	24.7	24.7	24.7	24.7
Long-term loans	59.0	57.6	41.8	23.5	15.6	7.0
Short-term debt	15.8	25.8	41.7	41.7	33.8	25.3
less: Cash	3.2	7.2	11.2	11.2	11.2	11.2
<b>Invested capital</b>	<b>272.5</b>	<b>286.8</b>	<b>303.9</b>	<b>301.3</b>	<b>301.6</b>	<b>303.0</b>
Fixed assets	1.0	1.8	3.4	3.7	3.3	3.0
Intangible assets	233.9	238.5	252.6	252.6	252.6	252.6
JV assets	2.9	2.9	2.9	0.0	0.0	0.0
Goodwill	26.0	26.0	26.0	26.0	26.0	26.0
Inventories	12.9	15.4	14.2	16.3	17.5	18.6
Trade debtors	8.8	20.5	17.3	19.8	21.3	22.7
Other debtors	2.8	6.2	6.3	7.3	7.8	8.3
Tax liability/credit	-2.1	-2.5	-2.4	-2.6	-2.7	-2.8
Trade creditors	-1.2	-5.7	-6.7	-7.4	-7.9	-8.3
Other creditors	-12.7	-16.3	-9.9	-14.4	-16.3	-17.1
Debtors less creditors	-4.3	2.2	4.7	2.7	2.2	2.8
<b>Invested capital</b>	<b>272.5</b>	<b>286.8</b>	<b>303.9</b>	<b>301.3</b>	<b>301.6</b>	<b>303.0</b>

Source: Hardman & Co Life Sciences Research

Key metrics						
Year-end Dec (£m)	2015	2016	2017	2018E	2019E	2020E
Net cash/(debt)	-71.5	-76.1	-72.3	-54.0	-38.2	-21.1
Net debt/EBITDA (x)	5.3	2.8	2.6	1.7	1.1	0.6
Net debt/equity (%)	-38%	-37%	-32%	-22%	-15%	-8%
NAV/share (p)	35	38	43	46	50	53
Stock days	71	53	52	47	49	49
Debtor days	58	77	67	57	59	59
Creditor days	57	48	55	55	55	55
Interest cover (x)	11.0	9.2	9.1	10.5	14.7	22.9
Dividend cover (x)	3.6	3.3	3.2	3.3	3.3	3.4
Cap-ex/depreciation (x)	2.7	3.4	3.4	1.3	0.7	0.8
NOPAT	12	21	18	25	27	29
After-tax ROIC	4.3%	7.3%	5.8%	8.3%	8.9%	9.7%
Cap-ex/sales (%)	1.3%	1.2%	2.2%	1.3%	0.8%	0.9%

Source: Hardman & Co Life Sciences Research



## Cashflow

- ▶ **Free cashflow:** Growth in high-margin brands, coupled with close control of working capital, have led to strong underlying generation of operational cashflow.
- ▶ **Exceptionals:** In 2017 there was a one-off £4.0m receipt from Sinclair in relation to the warranty settlement for Kelo-stretch. A further £1.0m will be received in fiscal 2018.
- ▶ **Acquisitions:** Towards the end of 2017, £16m cash was invested in the acquisitions of Vamousse and Ametop.
- ▶ **Disposals:** APH has divested its share of the Unigreg JV in China for a cash consideration of £2.9m, of which £2.4m is payable on completion. The deal will also result in the repayment of £1.5m outstanding loans to APH.
- ▶ **Leverage:** Despite the acquisitions, net debt to EBITDA still reduced from 2.8x in 2016 to 2.5x in 2017. APH expects leverage from operational activities will continue to reduce to below 2.0x during 2018. This will be boosted further by the cash disposal of the Chinese JV.

Cashflow						
Year-end Dec (£m)	2015	2016	2017	2018E	2019E	2020E
Underlying EBIT	13.3	26.3	27.3	31.2	33.6	36.7
Depreciation	0.2	0.3	0.7	1.2	1.5	1.5
Amortisation	0.2	0.1	0.3	0.2	0.2	0.2
<i>Inventories</i>	-7.0	-2.4	1.1	-2.0	-1.2	-1.1
<i>Receivables</i>	2.3	-14.1	4.0	-2.5	-1.5	-1.3
<i>Payables</i>	-3.3	10.1	-3.0	0.7	0.5	0.4
Change in working capital	-8.0	-6.5	2.1	-3.8	-2.2	-2.1
Exceptionals/provisions	4.5	0.0	4.0	1.0	0.0	0.0
Other	-0.1	-0.3	0.5	0.0	0.0	0.0
<b>Cashflow from ops.</b>	<b>10.1</b>	<b>20.0</b>	<b>34.9</b>	<b>29.8</b>	<b>33.1</b>	<b>36.3</b>
Net interest	-1.0	-3.0	-2.6	-2.9	-2.3	-1.6
Tax paid/received	-1.9	-3.0	-3.7	-4.2	-5.6	-6.5
<b>Operational cashflow</b>	<b>7.2</b>	<b>13.9</b>	<b>28.6</b>	<b>22.7</b>	<b>25.2</b>	<b>28.2</b>
Capital expenditure	-0.6	-1.1	-2.2	-1.5	-1.0	-1.2
Capitalised R&D	0.0	-0.3	-0.5	-0.5	-0.5	-0.5
Sale of fixed assets	0.0	0.0	0.0	0.0	0.0	0.0
<b>Free cashflow</b>	<b>6.6</b>	<b>12.5</b>	<b>25.9</b>	<b>20.7</b>	<b>23.7</b>	<b>26.6</b>
Acquisitions	-133.9	-6.0	-17.5	0.0	-1.5	-1.9
Disposals	0.0	0.0	0.0	2.4	0.5	0.0
Dividends	-2.6	-5.2	-5.4	-6.3	-7.0	-7.6
Other investments	0.0	-1.0	0.2	0.0	0.0	0.0
<b>CF after investments</b>	<b>-129.9</b>	<b>0.3</b>	<b>3.1</b>	<b>16.8</b>	<b>15.8</b>	<b>17.1</b>
Share repurchases	0.0	0.0	0.0	0.0	0.0	0.0
Capital increases	79.8	1.3	0.7	0.0	0.0	0.0
Currency effect	-0.1	-6.2	0.0	0.0	0.0	0.0
<b>Change in net debt</b>	<b>-50.2</b>	<b>-4.6</b>	<b>3.8</b>	<b>18.3</b>	<b>15.8</b>	<b>17.1</b>
Opening net cash/(debt)	-21.1	-71.4	-75.9	-72.1	-53.8	-38.0
<b>Closing net cash/(debt)</b>	<b>-71.4</b>	<b>-75.9</b>	<b>-72.1</b>	<b>-53.8</b>	<b>-38.0</b>	<b>-20.9</b>
Hardman CF/share (p)	2.4	2.7	5.5	4.4	5.0	5.6

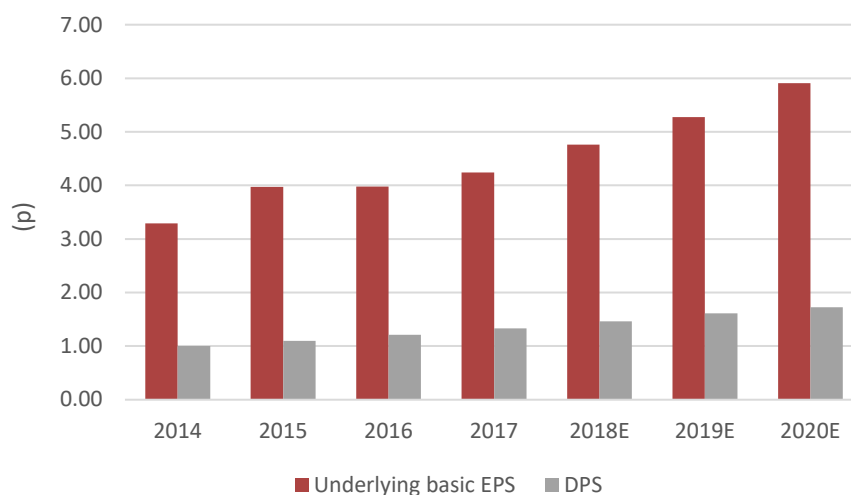
Source: Hardman & Co Life Sciences Research

## Valuation

APH is currently trading on a 2018 PE of 16.1x with an underlying CAGR EPS growth rate 2017-2020 of ca.11%. This includes the establishment of its US operation, but excludes any potential revenues and launch costs from Diclectin in 2018, the timing and certainty of which is unclear. The prospective dividend yield is 1.9% with a progressive dividend policy that is currently covered 3.3x times.

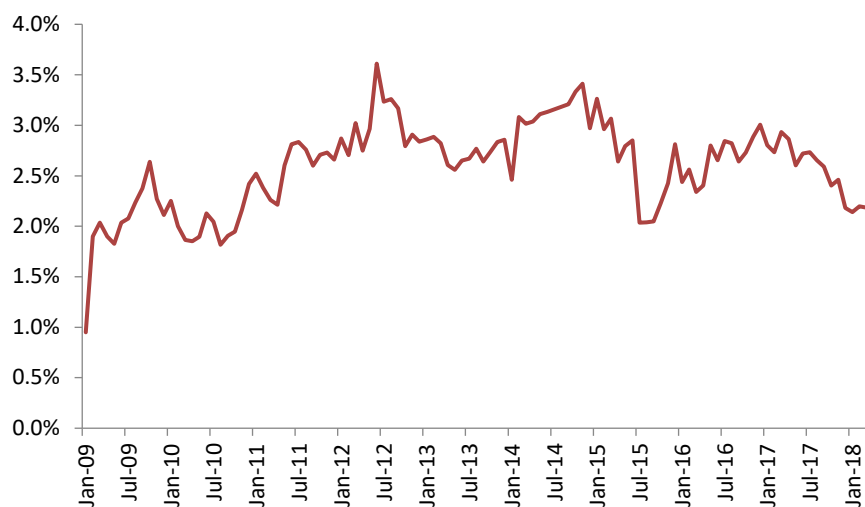
APH is generating a ROIC of 8-9%, with some of the free cashflow being reinvested into product acquisitions, as evidenced recently with Ametop and Vamousse. Underlying free cashflow is forecast to be in the range of £24.0m-£27.0m over the next three years, which will be used primarily to pay down borrowings, whilst retaining the capacity to make further bolt-on acquisitions. The company has an undrawn banking facility of £25.0m available with bank approval.

### EPS and DPS



Source: Hardman & Co Life Sciences Research

### Prospective dividend yield



Source: Hardman & Co Life Sciences Research

## Company matters

### Registration

Incorporated in England & Wales with company registration number 042411478

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[www.alliancepharmaceuticals.com](http://www.alliancepharmaceuticals.com)

### Board of Directors

APH has announced already that Peter Butterfield will take over as CEO on 1<sup>st</sup> May 2018, and John Dawson will become a non-executive director.

Board of Directors				
Position	Name	Nominations	Remuneration	Audit
Chairman	David Cook	M	C	C
Chief Executive Officer	John Dawson	M		
Deputy CEO	Peter Butterfield			
Chief Financial Officer	Andrew Franklin			
Non-executive director	Thomas Casdagli	M	M	
Non-executive director	Nigel Clifford	C	M	M

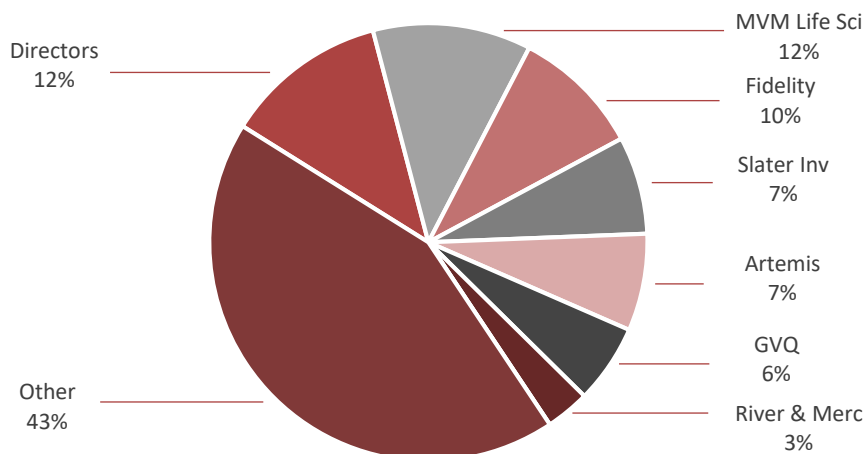
*M = member; C = chair*

*Source: Company reports*

### Share capital

The company has 475,034,541 Ordinary shares of 1p in issue. There are also 39.9m options outstanding.

#### Major shareholders



*Source: Company reports*

## Notes

## Notes

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