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Alliance Pharma plc Annual Report and Accounts 2022

Strategic Report

“As we continue on our growth trajectory journey, our portfolio continues to provide a robust platform from which to grow our consumer healthcare brands.”

Peter Butterfield, Chief Executive Officer



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CHIEF EXECUTIVE'S REVIEW

TRADING PERFORMANCE

Overview

We recognise that 2022 didn't deliver the trading performance that we expected at the start of the year. This was largely due to underperformance in two discrete areas of our business, Kelo-Cote™ in the business-to-business ('B2B') channel, and Amberen™ in the bricks and mortar channel, and was set against a challenging economic backdrop with the war in Ukraine and COVID 19-related lockdowns in China creating supply disruption.

However, we were able to successfully leverage our existing infrastructure, by acquiring ScarAway™ and the US rights to Kelo-Cote™ in March 2022, to create our first truly global brand, bringing additional growth opportunities into the business. We also started to realise the benefits of our investment in innovation and development with the launch of Kelo-Cote™ Kids.

We start 2023 in a good position, having refreshed our strategy, to better align our business with the evolving dynamics of the Consumer Healthcare market. Going forward, our efforts will be focused on those market segments in which we already have a strong presence and expertise in order to drive solid organic revenue growth above that of the broader Consumer Healthcare market.

A challenging year

The implementation of rigid lockdowns in China from March prevented the movement of Kelo-Cote™ across the border from Hong Kong, effectively closing the cross-border e-commerce ('CBEC') channel and leading to declines in the CBEC scar treatment market in H1. During this period, consumer demand remained strong and the domestic online market grew, with Kelo-Cote™ gaining share.

SEE-THROUGH REVENUE

£172.0m

+1% (2021: £169.6m)

See our operational performance on page 43

Whilst the CBEC market returned to growth in H2, and Kelo-Cote™ delivered a strong performance in the business-to-consumer ('B2C') channel, winning a prestigious Tmall global award for surpassing RMB100m (c. £12m) in sales, the B2B market was slower to recover, with traders reluctant to restock Kelo-Cote™ for fear that counterfeit product would be available at a lower price. This problem was compounded by a one-off destocking decision by our CBEC distributor.

We continue to work with our CBEC distributor to further develop this channel, expand reach and optimise sales. Our B2C channel is well developed, and we have refined our strategy to increase our presence in the significant B2B channel, which incorporates additional distributor support. In light of that, we anticipate that sales will build steadily through 2023.

Amberen™ sales performance was impacted by declines in the underlying bricks and mortar market due to an increase in prevalence of cheaper, white-label alternatives and switching to online platforms, in addition to the loss of a leading discount store account. Alliance is committed to increasing the performance of Amberen™ in the higher growth e-commerce channel whilst optimising sales in bricks and mortar where appropriate. The brand's packaging has been re-launched featuring stronger claims, and advertising investment continues focused on digital,

video, social media and search engine optimisation to drive share gains.

We were disappointed by the CMA's finding that four companies, including Alliance, infringed competition law in relation to the sale of prescription prochlorperazine between June 2013 and July 2018. We fundamentally disagree with the findings, and the proposed fine, and look forward to presenting our case at the Competition Appeal Tribunal, which is scheduled to commence on 5 June 2023.

Strengthening our Consumer Healthcare business

We acquired ScarAway™ and the US rights to Kelo-Cote™ in March 2022 to create the Group's first fully global brand. The integration of both assets went very smoothly, with full transition completed in just four months and post-acquisition sales in line with expectations. This successful integration was made possible by the implementation of our ERP system in 2021, and we have used the learnings from this project to create a blueprint for future acquisitions.



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CHIEF EXECUTIVE'S REVIEW CONTINUED

2022 was also the year in which we finally gained full control of the remaining marketing authorisations for Nizoral™ across the APAC region, securing China in March 2022 and Vietnam in May 2022, following the acquisition of the Nizoral™ brand from Johnson & Johnson ('J&J') in 2018. The transfer of the marketing authorisation in China allowed us to transition to a new top-tier local distributor at the end of H1 2022 to service the brand's largest market. Our new distributor offers a larger sales team than the partner we inherited from J&J and has fewer products in its portfolio, which ensures more sales resources are dedicated to our account.

Progressing our innovation and development programme

Our dedicated Innovation and Development ('I&D') team was established in 2021 to support the organic growth in our Consumer Healthcare brands and in April 2022 we launched the first product from this initiative, Kelo-Cote™ Kids, into the CBEC channel. With only two other products in the children's CBEC scar treatment market in China we were able to drive market share gains to 39% in December 2022, delivering incremental growth in the brand.



The performance of this launch has exceeded our initial expectations; new product innovation approvals have been submitted to allow us to launch Kelo-Cote™ Kids in the UK and Germany in 2023.

→ See our **Spotlight on innovation and development** on page 20

We have a number of new products, line extensions and reformulations in our I&D pipeline and have since launched Canker-X, part of the Aloclair™ brand franchise, in the US in January 2023. With investment of £1m – £2m per annum in I&D we aim to achieve 10% of Consumer Healthcare sales through products developed on our I&D platform in the next five years.

Refining our Purpose, Vision and Strategy

Throughout 2022 we have worked to refine our Purpose and Vision to align with our transformation to a predominantly Consumer Healthcare company. We have also worked to evolve our strategy to better position the Company for the years ahead and in response to changing underlying market dynamics. Going forward, our aim is to drive solid organic revenue growth above that of the broader consumer healthcare market.

This updated strategy provides a more targeted approach, identifying the key global categories in which we will operate, and more clearly defines the areas in which we would consider future acquisitions. Going forward, we will focus our resources on the global priority categories of helping damaged skin and supporting healthy ageing.

→ See our **Strategy** on page 12

Continuing our sustainability journey

We made good progress against our environmental sustainability agenda in 2022, setting a target to reach net zero for all Scope 1 & 2 emissions by 2030. This year we also undertook an initial risk assessment and scenario analysis to support the publication of our first voluntary stand-alone TCFD report and more extensive voluntary TCFD disclosures on our journey to full TCFD compliance.

→ See our **Spotlight on developing our response to climate change** on page 33

We gained greater understanding of the constituents of our packaging estate, both primary and secondary, and the steps we need to take to promote recycling and reduce the use of single-use plastics. Our newly appointed sustainable sourcing lead is helping us to progress these initiatives in 2023 with a number of pilot projects planned.

→ See our **Spotlight on managing our packaging estate** on page 31

Building a strong alliance of colleagues

Our business, and the delivery of our strategy, is only possible due to our network of talented, dedicated colleagues. We currently employ more than 285 people in eight locations around the world. We created 18 new roles in 2022, across all our geographies, as we looked to meet our evolving business needs, increasing our capabilities in data analysis, sustainable sourcing and packaging, ERP and sales and marketing in the US.



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CHIEF EXECUTIVE'S REVIEW CONTINUED

We have also expanded our talent development programmes to ensure we attract and retain an appropriate mix of skilled professionals. In 2022 we launched our graduate and year in industry programmes to support those at the early stages of their career development and to complement our existing apprenticeship programme in the UK.

As COVID-19 restrictions eased around the world we were finally able to bring together colleagues from all our offices, with the exception of Shanghai, for our first global employee conference. The conference provided an opportunity for colleagues to network, share ideas and discuss our updated purpose, vision and strategy. Due to continued COVID-19 lockdowns, we organised a parallel event to allow our team in Shanghai to participate and share the experience.

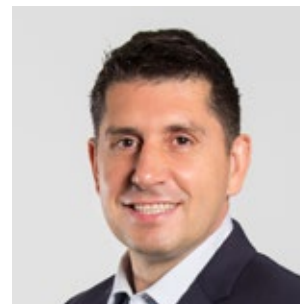
Our investment in colleague engagement continues to pay dividends as evidenced by our re-certification as a Great Place to Work in the UK, China and Singapore. We were delighted to receive certification for the first time in the US and France meaning that all our qualifying offices are now certified. In the 2022 survey we were pleased to have received an overall Trust Index rating of 79% (2021: 76%) with 82% of participants globally saying that Alliance was a Great Place to Work (2021: 81%).

[See our Spotlight on culture, people and values on page 24](#)

On behalf of the Board, I would like to thank all those colleagues who helped us to deliver our achievements in 2022.

Board and executive changes

In February 2023 we welcomed Jeyan Heper to Alliance, in the newly created position of Chief Operating Officer. Jeyan has a strong track record of strategic leadership in the international consumer health market, overseeing a number of global programmes and driving growth in flagship brands. In his career



spanning more than 25 years Jeyan has held senior executive roles at Procter & Gamble, Danone Group and Ansell's sexual wellness global business, before it was spun-out to become Lifestyles Healthcare, a private equity/pharma-owned company where Jeyan became CEO.

Jeyan will help to bolster the Group's operational capabilities, identify growth opportunities, and help drive the Company's strategy to expand its consumer health presence through leveraging his experience of e-commerce in China and the US, and improving operational effectiveness.

Jeyan joined the Alliance Board, which was strengthened further by the appointment of Martin Sutherland as an additional Independent Non-Executive Director ('NED'). Martin is a senior executive with over 30 years' experience in global businesses and is currently a NED at Forterra plc and Reliance Cyber Ltd. Prior to this, Martin was CEO of De La Rue PLC. Martin has a proven track record of delivering growth through new product innovation, market diversification and international expansion.

Martin's experience will bring a new perspective to complement the strong consumer healthcare knowledge already present on the Board.

[See our Board of Directors on page 61](#)



Outlook for 2023

Our clear focus on the core Consumer Healthcare business in addition to our well-established, scalable platform across EMEA, APAC and the US, should support good organic growth in the near term. Whilst 2022 presented some challenges to the business, we have robust plans in place to drive growth in 2023 and the Board's expectations for full year performance are unchanged.

As indicated in the January trading update, Kelo-Cote™ revenues are expected to build through the year, supported by strong end-consumer demand. The China cross-border e-commerce market for Kelo-Cote™ has shown early signs of recovery with in-market demand and sales orders increasing over the first two months of the year, and we expect total revenue growth for the entire Kelo-Cote™ franchise to be above 20% in 2023. We expect to see high single-digit revenue growth from Nizoral™ in 2023, as we accelerate the roll-out of our tested strategic plan for the brand in partnership with our new distributors in China and Vietnam.

Amberen™ faced some temporary headwinds in early 2023 due to supply challenges at Amazon which are being addressed. The underlying market conditions are positive and this, together with our revised marketing plans, mean that we still anticipate double-digit revenue growth for Amberen on a like-for-like basis.

Our portfolio of other consumer brands is expected to deliver high single-digit revenue growth, substantially ahead of the broader consumer healthcare market.

Peter Butterfield
Chief Executive Officer

20 March 2023



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