Croda International Plc

Agreement to divest majority of PTIC businesses

Call transcript 22 December 2021

Key:
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David Bishop
Good morning, everybody, and thank you for joining this 30-minute call to discuss our agreement to sell the majority of our PTIC businesses. I'm David Bishop, Investor Relations Director and I'm joined this morning by Jez Maiden, Group Finance Director.

Jez will take us through a 10-minute presentation and then we'll have 20 minutes for Q&A. If you'd like to ask a question, please submit it in the box below. You can also use the raise hand function in zoom. I'll now hand over to Jez.

Jez Maiden
Thanks David and hello everybody, thanks for joining at such short notice. I'm sure you have seen our announcement this morning and needless to say we are very pleased to have signed a definitive agreement to sell the majority of our Performance Technologies and Industrial Chemicals – or PTIC – businesses to Cargill, the largest private company in the United States.

The businesses that we are divesting represented 77% of PTIC sales in 2020. The parts of PTIC that we are retaining will provide integral support to Consumer Care and Life Sciences, becoming our Industrial Specialties sector which I will talk more about shortly.

Cargill have agreed to pay €915m in cash, approximately £778m, for the divested business on a cash-free debt-free basis. This represents an attractive multiple and reflects the quality of the business and the high levels of interest we received.

The divestment follows the strategic review of PTIC that we announced in May 2021. You will remember that the purpose of that review was to determine the best ownership structure for PTIC to ensure its future success. We are pleased that, in Cargill, a company with a 150-year history and over 150,000 employees in 70 countries, we have found an acquirer who is well placed to invest in the business and take it forwards.

We are already working with Cargill on the process to separate the two businesses and expect to close the transaction in summer 2022. Completion is subject to customary regulatory approvals but is not subject to approval by shareholders.

Most significantly, the agreement that we have announced today completes our transition to a dedicated consumer care and life sciences company. We will focus our capital and resources on scaling our healthcare technologies and further developing our position as a sustainability leader in consumer care and crop care markets. This will enable consistent sales growth and even stronger profit margins.

I'll talk more about use of proceeds at the end of this brief presentation but before I do so, I'd like to step you through the financials – both the shape of the divested business and the impact on Croda.

On the following slides I will focus on full year 2020 numbers, but we have also provided performance for the last 12 months to 30 June 2021 on each slide.

You will recollect that at the end of last year we transferred our Home Care business from Performance Technologies to Consumer Care. The 2020 disclosures in this presentation have therefore been restated for this earlier change in sector reporting, consistent with our approach when we reported half year results in July.

Whilst the agreement with Cargill is denominated in euros, the information on the slides that follow is presented in pounds sterling.

This slide shows Croda's reported 2020 performance on the left-hand side and the divested business on the right for the full year. As the divested business does not exist as a separately reported entity, these results have been derived on a carve-out basis from PTIC's performance. This includes the full value of the trade which in future will be shared between Croda and the divested business under planned supply agreements.

The strategic review and divestment we announced today cover both Performance Technologies and Industrial Chemicals, which we have reported separately in the past. In full year 2020, and as reported in our last full year accounts, total PTIC sales were £470 million and total adjusted operating profit was £49 million, an operating margin of 10.3%.

PTIC D&A, presented on a consistent adjusted basis, was £25m.

Of this, divested business sales were £361m, representing 77% of total PTIC sales. This is in line with our previous expectations about the proportion of the business that could be potentially carved out in a divestment.

This includes approximately £35m of sales from Croda Sipo in China – a joint venture in which we have a 65% stake. The sale is based on 100% of Sipo transferring to the buyer, which we will explore with our JV partner. In the event that this cannot be achieved, we will continue to run SIPO as a JV, reducing the consideration by €140m.

Total adjusted operating profit for the divested business in 2020 was £39 million and D&A was £12 million.

This next slide shows gross assets for the divested business in relation to PTIC as a whole.

In our 2020 accounts, combined assets for PTIC were £614 million, or £564 million pounds excluding Home Care.

Gross assets for the divested business were £320 million, approximately 57% of PTIC. The divested assets comprise 5 manufacturing facilities, including Croda Sipo, Gouda in the Netherlands, Hull in the UK and two smaller European sites, plus two additional laboratories.

Gross assets as a proportion of PTIC is a lower than the equivalent proportion of sales because we are retaining highly integrated sites, such as Atlas Point, to support strong future growth in our focus sectors.

The next two slides explain the impact of the divestment on Croda and the new Industrial Specialities sector – the part of PTIC that we are retaining. Firstly, let's look at PTIC and Industrial Specialties.

Taking the combined PTIC sales in 2020 of £470 million as the starting point, the carve out will reduce sales by £361 million, as stated previously. We have put in place a supply agreement for those products needed by the buyer to meet the requirements of customers, manufactured on retained Croda sites. Similarly, there is a supply agreement to provide certain ingredients to Croda from the divested business' manufacturing plants. These agreements will be managed

by our new Industrial Specialties sector, alongside the retained parts of PTIC, and would have generated £63m of additional revenue to Croda in 2020, had they been in place then.

The overall effect of the divestment is therefore to reduce PTIC sales by £298m. The new Industrial Specialties sector would have had £172m of sales in 2020, had this been in place then.

This slide summarises the overall impact on the Group.

From the previous slide, Group sales would have reduced by £298m in 2020, had the divestment occurred then. The divestment would have reduced adjusted operating profit by £36m. Note that this is different to the divested business profit, because the impact on Croda takes account of both the value we retain under future supply agreements and dis-synergy costs remaining with us which were previously allocated to the divested business.

As you would expect, with an increased focus on higher value markets, return on sales would have been 3 percentage points higher as a result of the divestment.

In summary, this divestment will allow us to focus our capital and resources on higher growth markets. Our priority is to reinvest capital released through the transaction into organic capital expenditure, to take advantage of significant opportunities for growth. Our focus is on increasing our exposure to healthcare and further developing our position as a sustainability leader in consumer care and crop care markets. This will be supplemented by potential acquisitions of disruptive technologies in both existing and adjacent markets.

Clearly, the proceeds of the sale will significantly reduce net debt, which is expected to be just over £800m at the end of 2021 pre-divestment. We maintain our longstanding capital allocation policy and will return excess capital to shareholders if leverage remains below 1-2 times EBITDA and sufficient capital is available to fund investment opportunities. But our priority is to re-invest the proceeds.

So in summary, we are confident our talented and hard-working employees in the divested business can look forward to a bright future under Cargill's ownership. The retained parts of PTIC will play a key role in our integrated model as Industrial Specialties. The divestment will complete our transition into a pureplay consumer and life sciences company with well over 90% of profits expected to be derived from life sciences and consumer care. And the sale will facilitate focused investment into faster growth markets, delivering consistent sales growth at an even stronger profit margin.

Now I'll hand back to you, David.

David Bishop
Thank you, Jez. We're now happy to take your questions if there are any. As a reminder, if you do have a question, please raise your hand or type your question in the box below. The moderator will then invite you to unmute your line.

Gunther Zechmann (Bernstein)
Hi, good morning and thanks for doing this call. Happy Christmas, first of all, everyone. I have a few questions, please. First of all on the Sipo divestment what are your discussions with your partner in that joint venture and could you put some, at least verbal commentary around the likelihood of a SIPO divestment as part of the deal? And, connected to Sipo, why has Sipo becomes so much more valuable? You acquired your stake in 2013 and that was €69m euros on a 100% basis, and this has now doubled, so could you share some financial figures of how the business has performed, what the sales and earnings level of Sipo is right now?

So that's part one, and secondly, what are the dis-synergies that you expect from the divestment and then lastly, can you just talk us through what is retained exactly in the business, what's in the 23% that is not being divested please? Thank you.

Jez Maiden
Yes, and thank you, wishing everybody a Merry Christmas, that's a good way to start the question.

I mean clearly up to now the discussions have been primarily between ourselves and Cargill over the over the purchase. Now obviously we've got a period of several months before closing can happen, while the regulatory approvals, and so forth are processed and we finish the separation work around how to carve the business out given it's not sort of standalone entity and during that time we'll be able to have discussions with our joint venture partner in terms of whether or not they're happy to be a seller as well as part of the assets.

As I say, the fallback position is that we will continue to run it as a JV but, clearly, given that Sipo has a strong crossover with the products that come out of Gouda and Hull it would make sense to us to dispose of all of those together, so we'll take those discussions forward over the next few months. In terms of value, I think this business has more of an industrial focus obviously than the other two sectors that we're focused on, and I think you know if you look at where growth is coming from an industrial sectors, the vast majority is being driven by China.

Either China for the best domestic consumption or China as a manufacturing location for the rest of the world. I think it's well over 50% of the future growth in industrials is expected to come from China in one of those two routes. So for that reason, I think having a manufacturing presence in China, as well as the lab that we opened last year in Shanghai, which is part of this carve out and the sales force that we have in China is really quite attractive to global companies like Cargill who want to grow their presence in China and already have a strong presence in China, so I think that's why you're seeing more value related to China.

David did you want to touch on the broad parameters around the scope and size of Sipo.

David Bishop
Sipo is about £35m of sales, so that's the rough scale of the entity that we have the stake in in China.

Jez Maiden
Do want to touch on the retained parts of Industrial Specialities David and I'll cover the synergies.

David Bishop
Yes, so as we said in the release, you know that we run an integrated model at Croda and a good example of that is our Atlas Point site in the US, where we produce bio-based surfactants for industrial customers, as well as customers in Consumer Care and Life Sciences. So, the retained part of Industrial Specialties is there to support Consumer Care and Life Sciences.

In terms of specific standalone industrial capabilities, we have a fibre and fabrics business in there, which is mainly capabilities in India and Indonesia serving the textiles industry. We have a water treatment business, and then we also have what we call a smart formulations business. So, these are the higher growth elements of the portfolio focused on electronics and display technologies, for example.

Jez Maiden
So, I think in there Gunther you've got a good mix of businesses which are actually quite hard to separate from sites that we want to retain within Croda and businesses where we see some specific, targeted strategic opportunities, but which don't then obviously compete with the business that we're selling and so forth. So that combination together makes sense because those product areas, you know support the cost and investment around the two focus sectors and also makes sense because they're different businesses to the primary Energy Technologies and the Smart Materials businesses which formed the key basis of the businesses that were selling through the divestment.

In terms of dis-synergies, it's a relatively small cost overall. I mean clearly all the costs related to manufacturing sites, all the costs relating to sales marketing and the R&D teams are expected to move as part of the of the transaction. So really what that leaves us with is some costs in our regional centres; so overhead costs associated with running regional operations, together with some central costs that would have been previously allocated to the business but with other things being equal, clearly don't really change and which would then fall back onto the remaining sectors.

I think that that's a relatively small number, but it's also a bit of a transient number because of course when we added Iberchem and Avanti in 2020 we didn't increase those regional overheads and central costs, so they got spread over a larger value add base. So yes, we'll get a short term temporary negative impact from dis-synergies, but of course as we grow those businesses will absorb those costs. So essentially the costs that are not variable with what we do in the divested business.

Gunther Zechmann (Bernstein)
Thanks, I'll jump back in the queue.

Jez Maiden
Okay, thanks Gunther.

David Bishop
Any further questions? Looks like Charles Eden is just coming through so Charles Eden at UBS go ahead and ask your question. Good morning.

Charles Eden (UBS)
Morning, thanks both. Just a couple additional ones for me please. Firstly, is there any tax implication of the disposal to note, that would be the first one. And then Jez, just to pick up on your comment, I think it was slide eight where you said primarily organic investments but supplemented by potential acquisitions of what you refer to as disruptive technologies. Would you be able to elaborate what would constitute a disruptive technology please? Thank you.

Jez Maiden
Sure, absolutely Charles. So, in terms of tax impact the principal sales are in the UK and Holland, which are the big operations and they're not expected to have any significant impact in terms of tax leakage because of the UK induction legislation around that. There will be some limited leakage associated with the sales office and potentially a small amount in China as well, but the tax leakage is relatively small on this because of the UK and Dutch exemptions.

It doesn't really change the geographic footprint going forward if you also think about the effective rate tax going forward. So, we wouldn't expect that to change away from our general guidance around about 25% for the effective tax rate for the group, you know it's got a fairly typical global footprint for us in terms of mix of presence.

In terms of investment, right now we see a lot of organic investment opportunities, which is why we feel the focus will be there. I think we have a good model that we've demonstrated through the healthcare process platform over the last two or three years. We had the technology platform in patient healthcare on specialty excipients, so the liquid injectable delivery systems which has grown up in Croda over the last 10 to 20 years.

We've been expanding that organically with doubling of capacity in the US to meet the sort of 10 to 30% growth that we're seeing in that platform, year on year. And then three years ago this month we did the acquisition of Biosector, so the vaccine adjuvant business. Since acquiring that for about €70m we've probably invested about £20m so far in expanding capacity on the existing footprint.

And then we bought Avanti for up to $260m including the earn out dollars. What we've then done is invested £40m in that site and £40m in the sister site that we already had in the UK. So, I think there’s quite a nice model there, which is to acquire a platform technology through M&A to sort of shortcut into that technology, but then to expand it organically.

So, I think we can look forward to a period over the next three years where we can see enhanced opportunities to deploy capital organically. To expand the footprint we have in those three platforms, in Crop Care and in Consumer Care, as we showed with the acquisitions of Alban Muller and Parfex earlier this year. But then, if we can identify another platform in health care, in patient health care delivery systems, if we can identify things in Crop Care as we did with Incotec and Plant Impact previously, or in Consumer Care where we’ve obviously done Iberchem and the related acquisitions, I think that’s a really good model.

So, I think what we're saying is primarily, we have a great footprint and therefore we want to organically build it out. It's low risk you're not paying a multiple, you're not paying away goodwill intangibles, and the risk is more managed from that point of view. But periodically we will find a new technology and new platform to get into. I'm sure in healthcare, for example, there may well be a fourth or fifth platform that keeps us in delivery systems, that's where we are focused, but which would allow us to then grow and scale out from that. Once we've got a platform, we prefer to develop that organically and I think that's proving a very successful model in healthcare. So, I think that's the structure you can see, more in organic but these sort of bolt on acquisitions from time to time.

As we know, the sort of Iberchem scale acquisitions at €820m this time last year, you know they are quite few and far between. So, I think the Avanti, Biosector type of acquisition is more likely to be the scale of M&A. You wouldn't rule it out, but there are very few examples of bigger businesses, and they tend not to be available very often unless they're already private equity owned like Iberchem was. I think that's the structure we see going forward, an opportunity to deploy more organic spend over the next three years to expand the footprint that we've got now and sustain the stellar growth that we've been seeing. And then let's look for additional opportunities and that's our priority for using the proceeds.

Charles Eden (UBS)
Understood. Thank you, bye.

Jez Maiden
Thanks Charles. I think there's one on the chat as well David.

David Bishop
Why don’t I briefly cover that. So, it's Adam Collins at Liberum and he's asked can you say more about the PTIC retained business? What's the pro-forma growth and margin for that business? I'll touch on the margin and then perhaps you want to talk about growth Jez.

So broadly the retained business, we think, will have a return on sales in line with PTIC. So that's Performance Technologies and Industrial Chemicals combined, which as a guide was about 10.3% in FY20 and then 11.1% on the last 12 months to the 30th of June. So that from where we are today is a reasonable guide for the likely margin for Industrial Specialties. Jez, anything to say on growth.

Jez Maiden
Yes, so the perception on growth overall for the more industrial focused business was that it is primarily a global GDP type play. I don't think we've moved away from that in relation to the Fibre, Formulation and the Water Treatment businesses that David talked about, so I think sort of GDP type growth levels in the absence of raw material price inflation is probably a good guide.

Also, Adam to pick up your other point, the big sites within the group which are going as part of the divestment are Hull, Gouda and Sipo. And there's a couple of little satellite sites in Europe which have been primarily focused around recent technologies that we've acquired.
And the other sites for the group are not part of the divestment, although they may supply limited amounts of product through the supply agreements we talked about. So, the big sites like Atlas Point in the US are not part of the divestment. We are keeping that and that probably becomes one of the groups largest sites, following the disposal of Gouda. So that site and all the other sites that are not part of the deal will stay. Because of the integrated nature of the group, you might have some products, e.g., some surfactants made at Atlas Point, which will be sold to the buyer as part of the supply agreement. One of the reasons we've retained the Water Treatment business in Industrial specialties is that that business is quite heavily based on our surfactants chemistry.

So clearly surfactant chemistry is the common is chemistry across the group, we use it in cleaning in Homecare, in cleansing the body within Personal Care and it's got applications and in Crop Care. And of course, it's also sold into PTIC, primarily, into the oil and gas industry for fracking and so forth. And so, the Water Treatment businesses will be retained because it's based around the surfactant chemistry at Atlas Point.

David Bishop
Thank you, Jez, thank you Adam. We’re just going to Mubasher Chaudry at Citi first.

Mubasher Chaudhry (Citi)
Hi, thank you for taking my questions. Just a couple. So, if I understand correctly, the cash inflow should be very similar to the kind of £780m that you've talked about today because there's a relatively low level of cash leakage. I know you talk about organic opportunities, but then you talk about kind of the £20 to 30m being invested in different sites and businesses that you’ve acquired. That’s quite a large number to deploy organically. Is it fair to assume it’s going to be largely inorganic in terms of deploying this inflow and are you giving yourself a timeline where you run a slightly inefficient balance sheet until you find the deal to execute otherwise this will come back to the shareholders? So, I just wanted to get some thoughts on that, that's my first question.

The second question, looking into 2022 I just want more of a clarity, I think previously Croda’s talked about potential margin expansion into 2022, I just wanted to double check that and say on a like for like basis, including now PTIC sold in 2021, is that margin expansion comment still relevant on like for like basis?

And finally, from a portfolio perspective, including the remaining Industrial Specialties and the rest of Life Sciences, are you happy with the exposure and the setup of the portfolio that you've got at the moment? Or should we expect further kind of almost on a smaller scale, but trimming your exposure and your portfolio setup? Thank you.

Jez Maiden
Okay, thanks Mubasher for that. So yes, you're right. Most of the proceeds would be expected to flow as cash and as you said there's relatively limited leakage and there's limited levels of debt within the businesses being sold so that that will come through. Based on just over £800m of net debt at the end of this year as a forecast, then it's going to not quite fully eliminate it, but mostly remove the net debt so we'll be in that position of close to zero leverage, obviously once it all completes which we expect to be in summer 22.

Really, I go back to my previous answer. We do see an opportunity to increase the organic capital spend for a period, let's say three years to deal with and really to take advantage of the opportunities that we have in the Consumer Care and Life Sciences space right now. We don't think the structural level of capex is changing. We think that stays around about £100m, 5 to 6% of sales. There's nothing unusual in the capital footprint of PTIC, which would distort that, so we expect to stay around that level.

But I think we can put a decent amount more capital to work in terms of accessing growth which will mean in the medium-term growth rates in both Consumer Care and Life Sciences are enhanced relative to where they would have otherwise been. You're right in saying that, with the cash generative nature of the group, and so forth, with our dividend policy, that's not going to use all of the proceeds that we would anticipate here. So, I think we do see inorganic expansion as part of the story as I laid out.

I think it's a good way into new platforms and new technologies, but it isn't just putting it all there and therefore that's why we remind everybody that we have a very clear capital allocation policy which we put in place seven years ago and which we have operated.

We've done two special dividends as returns of capital to shareholders and of course we've done one equity raise around Iberchem. So we are very disciplined around our allocation of capital and if we don't see applications for capital then we'll return shareholders, but at the moment, and certainly based on the feedback we've had from investors over the last few months, and indeed years, we've got such good returning opportunities in these markets that actually if we can find ways to deploy it effectively, we should definitely do that first.

We have a very clear discipline and are very clear about the returns we expect from our projects both organic and inorganic and if we're not seeing those, then of course we will consider return to the shares. So yes, there's going to be a period, probably, unless we're very fortuitous in terms of timing and things, where from the middle of 22 you might call the balance sheet a little inefficient. But I think as we've shown in the past, opportunities do come up. We invested nearly a billion pounds in 2020 at a time when everybody else was really diverted by the negative impacts on their businesses of COVID and we were able to move quite strategically. We would expect to see more of those sorts of opportunities so maybe some short-term inefficiencies but we're always managing for the longer-term value creation.

In terms of 2022 margin expansion, I don't think anything changes there. Clearly there's a step up because PTIC has always been dilutive to the to the margin that we're achieving in the business overall and therefore there's a step up from that. We would see opportunities for margin progression, we're currently mid 20s margin in Consumer Care and think that there's definitely opportunities to increase that. I think that will depend on the mix, clearly if more of the growth is coming from Iberchem which has an inherently lower margin per the fragrance and flavours industry average, then clearly that's a little dilutive. But, I think the fact we've got nearly 50 million euros of sales synergies that we expect to deliver by 2025 and the fact that we're seeing good growth in the actives and beauty care areas of what we used to call Personal Care together with the improvements we expect in home care performance we expect to the Consumer Care margin overall to be you accretive over time.

And in Life Sciences, although this year is probably a bit of an exceptional year because of the way we've needed to deal with the sort of COVID related demand that actually has had, as we said at the half year a bit of a short-term benefit to margin, we do expect Life Sciences to be a mid-30s type of return on sales business and opportunities, particularly through healthcare for potential expansion. So, we don't change our guidance at all on the opportunity not just for a step up in margin, because of the maths but also a move forward in margin while also delivering strong top line sales.

The portfolio at the end of the day we're really pleased with. We think that a pure play consumer care and life sciences business is the area to focus on. The industrial is a good supportive area - that combination of hard to separate businesses, but also businesses that we think are worthwhile in supporting the other two focus areas going forward and we're comfortable with the legs we're in.

We think there's a lot of opportunity to deliver growth in Consumer Care, in Healthcare and in Crop Care. We don't need to step outside that area at the moment to deliver strong growth and really good returns.

David Bishop
Thanks, Mubasher. Samuel Perry at Credit Suisse.

Samuel Perry (Credit Suisse)
Hi guys, thanks for taking my questions. Firstly, does this divestiture disadvantage you at all from a raw material sourcing perspective? And then sort of following on from Mubasher's question on the capex, my understanding was that the projects you're already undertaking in Life Sciences and specialty excipients were sufficient to drive the level of growth that you've targeted and the all the opportunities you saw. So, where is this additional capex going?

And then thirdly, on a special dividend can we assume that given that there's not one announced in conjunction with this announcement that it's unlikely to happen? And what was historically your criteria for paying special dividends? And then lastly just from a modelling perspective, when will you be reporting under this new structure?

Jez Maiden
Thanks for those Sam. In terms of raw material sourcing, no it doesn't disadvantage us at all. Probably the largest single raw material usage in PTIC is rapeseed so clearly, we won't be buying very much rapeseed going forward. But then, if you look at consumer care, you know the dominant material is palm oil derivatives and so forth, so we're still buying a large basket of commodity materials and that doesn't change. So no, certainly don't see any disadvantage on raw materials.

Performance tech has a relatively high bio-based content so our average bio-based will come down slightly probably more into the 50s from the current 65% bio-based level. But we still believe we can get to our target of 75% of our raw materials being bio-based by 2030, so we're not we're not moving that target, even though this makes life a little bit tougher from where we start from. The direction of travel in Consumer Care in particular is very much towards more bio-based materials so the growth of plants like Atlas Point on bio-based surfactants is a great example of where we're moving.

I think in terms of capex we're already on that journey in terms of an elevated level of capex. We expect capex this year in 2021 to be of the order of £150-160m. Actually in a normal growth period that we've seen over the last decade for example, probably £100m is sufficient to replace the asset base, invest in solid growth and do what we want to do on the carbon agenda, on the sustainability agenda, with the decarbonisation of plants.

This year we're probably going to be £150-160m and that's really about these additional opportunities. £40m invested in the UK lipids facility, £40m invested in the Avanti facility is probably the big drivers of the spend this year. When we look at businesses like Avanti there's a whole new set of opportunities, attached to the lipid technology we bought there, which is currently very COVID orientated but will increasingly become more gene therapy, therapeutic drugs and vaccines that are non-COVID related. That's what we bought the business for.

Right now, we are producing four lipid ingredients but there will be a broader range of ingredients added over time in the same way that we moved from half a dozen ingredients in speciality excipients to well over 50 now and that's broadened the drug portfolio that we can meet. So, I think that there are more growth opportunities that we can focus on for the medium-term around that platform and as fast as we invest in vaccine adjuvant capability it's sold out, so there's opportunities to grow in that business. And in consumer care as well.

So, that's what I mean about I think we've got an opportunity to take some superior growth by investing some relatively modest amounts capital relative to what you might spend on an acquisition. And so that's why I think we can probably have a sustained higher rate of capex for maybe a three-year period without actually changing the basic fundamentals of the business, which is a relatively capital light business.

In terms of special dividend, I mean it's not unlikely, but this is not a transaction to divest the business and return the proceeds to shareholders. There are great growth opportunities and we're talking about returns on capital, for example, in the life science business which are about three times the cost of capital. So it would just make no sense for us to return the proceeds to shareholders, if we can reinvest it for them and generate returns, which are three times costs capital and that's been for me, the strength of the Croda story; the fact that we can maintain this higher return on capital and not suffer mean reversion. So our job is to is to keep finding these opportunities and to invest in them but it's great to have a capital allocation and discipline to say look if we don't see those returns, we're not chasing a marginal return. We're not putting in more capacity and chasing marginal pricing to get more volume, this is a value-based investment thesis, not a volume-based investment thesis and therefore it's a very good discipline internally and externally, I think, to have the return of capital. But we wouldn't be looking at a return of capital on the immediate back of the divestment we'd like to see what are the capital opportunities to redeploy.

And then if we've still got surplus capital as we might have then of course we look at return, either through a buy back or special divi. We've preferred the special divi in the in the two previous occasions we've done it.

David Bishop
Thanks Sam. So, we appreciate it's the holiday season for many of you and thank you for joining us at such short notice. I'll be around during the day for any follow up questions that you might have and will also make a transcript and a recording of this available for you to view at a more convenient time. Merry Christmas to you all, and I hope you have a good break.

Jez Maiden
Thanks everybody, Merry Christmas.