

Croda International Plc

Results for the six months ended 30 June 2022

Call transcript

Key:

Steve Foots – Group Chief Executive

Jez Maiden – Group Finance Director

David Bishop – Director of Investor Relations

Steve Foots, Group Chief Executive

Good morning everyone and many thanks for joining our Half Year results call. As usual, I am here with Jez and David, and we will of course be very happy to answer your questions once we have been through today's presentation.

The agenda will be one you recognise – first some highlights from me, then over to Jez for detail on the numbers. I will then come back to talk about our future growth platform, explain why we are so excited by it and how it underpins our outlook for the second half of the year and beyond.

It's been an excellent first half, driven by very encouraging progress across all areas of the business. Once again, we've seen the unique strengths of Croda's business model, especially in our ability to manage unprecedented inflation by successfully passing on higher costs to customers.

We are also delivering our strategy. At the end of June, we completed the sale of the majority of our industrial businesses, fulfilling our ambition to become a pure-play consumer care and life sciences business. Croda is now more focused, both in terms of where we deploy our intellectual property and our capital. And that's translating into more and more growth opportunities, and that growth is more resilient than ever before.

Some of the key financial highlights across this slide – our growth is broad based, with sales and profits up across almost all areas. And record sales, margin and profit. This is classic Croda. Profit growth ahead of sales growth and EPS growth ahead of profits - the hallmarks of a great business, fuelling our ability to deliver strong returns to shareholders.

Our strategy has transitioned Croda into being a better margin and higher return business. And we are in an even stronger position to commercialise the knowledge and expertise of our people.

We are IP led – nearly 40% of the Group's sales are protected and we have over 1500 patents across 250 patent families. We're capital light with capex typically accounting for only 6% of sales or £100m annually. And the divestment of large sites such as Hull and Gouda have made us less carbon intensive.

And we are even more focused on value. You've heard me say that we sell in test tube quantities rather than tanker loads, now we are increasingly selling in vial quantities – pounds per gram rather than pounds per kilo. It is all about maximising value from the commercialisation of peoples' knowledge - not the commercialisation of metal capacity. We make much bigger margins that way. And we are doing that better and better.

So a great first half but let me stop there and hand over to Jez to go through the results in more detail.

Jeز Maiden, Group Finance Director

Thank you, Steve, and good morning everyone.

As Steve highlighted, the Group delivered an excellent financial performance in the first half of the year, building on the record performance seen in 2021.

Sales increased to over £1.1bn and were up by 21% against the prior year, 18% in constant currency terms. Adjusted operating profit increased by 24% to £300m and EBIT return on sales improved by 70 basis points and is now approaching 27%.

Adjusted profit before tax rose by 26% to £289m and, with the tax rate broadly flat against the prior year at 24%, adjusted earnings per share increased by 25% to 155p. We have declared an interim dividend of 47p, an increase of 8%, continuing a 30-year track record of unbroken dividend growth. Free cash flow reduced to £21m in the period, with significant investment in working capital reflecting strong sales growth.

Turning to the IFRS reconciliation, exceptional items and intangible amortisation totalled £13m. We delivered a profit on divestment of the PTIC business of £361m. As a result, on an IFRS basis, profit before tax more than tripled to £637m. The PTIC divestment completed on 30 June, so the first half year includes a full period of PTIC, reported in the usual way as continuing operations.

Turning now to the sales bridge for the first half.

The chemicals sector has seen significant inflation for some 18 months, which continued through the first half of 2022. We have continued to fully recover cost increases, demonstrating the strength of Croda's business model. Price/mix added 22% year-on-year, of which this successful recovery of cost inflation through higher selling prices is estimated to have contributed 20 percentage points. This was supported by a 2% improvement in mix.

Volume declined by 5% year-on-year. The first half of last year had been characterised by strong consumer demand, coupled with significant customer restocking. This restocking was a function of customers not wanting to be short of product as the post-COVID recovery took off, combined with the uncertainties around global supply chains and rising supply prices. As a result, we were serving the high demand last year from both production and existing stocks.

The first half of 2022 has seen supply chains and service levels improve, with the result that customer ordering has been normalised. Nevertheless, consumer demand has remained strong and our capacity remains tight in some chemistries. As a result, we have de-marketed lower margin product. This was reflected in a slightly lower volume but higher margin.

In addition, acquisitions added 1% and currency translation a further 3%, giving reported sales growth in H1 of 21%.

I have also shown what the impact of the PTIC divestment would have been, had it occurred on 1st January 2022. Taking account of sales retained by Croda and the impact of the new supply agreement to Cargill post-divestment, revenue would have been £191m lower.

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This slide unwraps the cost inflation further. The left hand side shows the breakdown of sales. Raw materials make up 35% of sales value, labour 19%, and energy and freight 3% each. 9% is other costs and 31% is our EBITDA margin.

Raw materials saw a 25% increase on average across the first half year, compared with the final quarter of 2021. With a broad basket of raw materials, mostly grown commodities, it was unprecedented to see so many different materials increasing together. The conflict in Ukraine added further to the existing inflation. We do not hedge raw material prices but buy on a quarterly basis, with our operating model ensuring successful recovery of this cost inflation as it occurs.

Freight costs continued to inflate after a challenging 2021 for global distribution, up 14% in the first half. Energy costs were up by 47%, though this benefitted from a degree of forward cover which we take on a rolling basis. Energy costs constitute a small proportion of our cost base but have been recovered within selling prices. Given our manufacturing footprint, we do not anticipate any material exposure to potential gas shortages in Europe from the current forward uncertainty, although some of our petro-chem raw material suppliers may be impacted.

As we look forward, we see signs of smaller price increases in many materials but we will continue to recover inflation as and when it occurs, protecting profit, in line with our operating model.

Growth was strong across all regions with double digit percentage growth on both a reported and underlying basis, that is excluding the impact of currency translation and M&A. Reported sales growth was particularly strong in Asia, at 31%, including in China, where sales grew even in April, the worst of the COVID lockdown months.

Sales in North America continued to grow strongly and in Latin America reported sales growth of 35% was driven by excellent demand in Crop Care. In Europe, reported sales grew by 13%, despite a small adverse impact from the conflict in Ukraine; sales impacted by the conflict are just 1% of the Group's total revenue.

Turning now to look at how the sectors performed. Consumer Care grew sales by 24%, whilst adjusted operating profit was 34% higher. Return on sales increased 200 basis points to 26.6%.

Life Sciences continues to grow. Sales were up 14% with adjusted operating profit 4% higher, against a record prior year performance that included peak COVID-19 demand. Life Sciences delivered a best in class return on sales of 36%.

The combined performance of Performance Technologies and Industrial Chemicals saw sales grow 24% and profit by 61%. Industrial markets reached top of the cycle, with prices for commodity by-products particularly strong, delivering return on sales of over 17%. Sales began to slow somewhat in the second quarter. There was a broadly similar performance between the business we divested and the part we've retained.

As already noted, at the Group level, sales were up 21% and adjusted operating profit up 24%, with return on sales of 26.6%. As in previous years, return on sales is impacted by the level of variable remuneration charge, particularly reflecting the impact of the share price on the mark-to-market of our global employee share plans. The lower share price across the first half year saw a benefit of 1.5 percentage points to the sector and Group return on sales.

Let's look at each of the sectors in turn.

Consumer Care was the standout performer in the first half year. Underlying sales increased by 18%. Price/mix was up 22%, driven by successful cost inflation recovery. Volume was marginally lower, reflecting the strong prior year comparator which benefited from the post-COVID resurgence in demand and associated customer restocking that I mentioned. This

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combined with some selective de-marketing of lower margin business to manage capacity limitations, with underlying consumer demand volume remaining robust.

The prior year acquisitions of Alban Muller in Beauty Actives and Parfex in F&F added 3% to sales growth. Currency translation also added 3%, resulting in overall reported growth of 24%.

We saw sales growth across all four business units. Beauty Care was the strongest – a noteworthy performance, given this was a business where growth had been inconsistent back in 2018 and 2019. Consumer demand for sustainable ingredients, such as ECO surfactants, and our enhanced formulation capability for customers, are driving growth and creating greater resilience.

Alongside Beauty Care, the Beauty Actives business continued to strengthen, with the integration of Alban Muller in complementary natural actives. Home Care continues to accelerate its customer roll outs in high value proteins for fabric care. The F&F business saw some improved growth in emerging markets, alongside good progress in synergy capture. Consumer Care return on sales increased by 200 basis points to 26.6%.

Following an outstanding year for Life Sciences in 2021, with rapid expansion of Health Care following the Avanti acquisition and COVID vaccine sales, the first half of 2022 saw further progress, consolidating on this exceptional performance.

Underlying sales growth was 12%, with price/mix growth of 1% and volume growth of 11%. Currency translation added 2%, resulting in reported sales growth of 14%. Volume growth was driven by a standout performance in favourable market conditions for Crop Protection. The lower average pricing in Crop also reflected in a lower price/mix for Life Sciences and in its return on sales of 36%. This Crop growth built on a strong second half of 2021, so headline growth will slow in the second half this year but the outlook remains strongly positive, with high commodity prices driving demand.

Health Care consolidated on a stellar 2021, with growth across all its platforms, other than lipid systems. Recent investment in capacity expansion in patient health drove continued growth in speciality excipients and vaccine adjuvants.

We are starting to see lower demand for lipid systems, as COVID vaccine use declines from its peak. 2021 saw total lipid sales of about US\$230m, of which \$190m was COVID related and the balance the Avanti R&D lipids business. The first half of 2022 saw \$90m of total lipid system sales. Looking forward, we expect a further second half decline to give full year total sales around \$150m, with \$120m in each of 2023 and 2024, as COVID demand stabilises at this lower level. After this, total lipid sales should return to growth from 2025, as clinical opportunities in mRNA and nucleic acids develop and convert into commercial scale projects, leveraging Croda's wider scale-up capability and Avanti's great pharma R&D customer access. It is important to remember that this was our rationale for acquiring Avanti – to develop this new patient health care delivery platform in exciting new technologies. But it is also good to be approaching the bottom of the curve from the initial COVID sales and important, I think, to see the profit growth we are delivering in 2022, despite an \$80m decline in total lipid sales. We are building a strong foundation for Croda in drug delivery which will deliver exciting growth in the future, and Steve will share some of the exciting pipeline programmes later.

In PTIC, first half performance was strong, with underlying sales growth of 22%. Price/mix increased by 32% reflecting the most significant cost inflation seen across the Group, but volume declined by 10% against a strong comparator and as industrial markets peaked in Q2.

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On 30 June, we completed the principal PTIC divestment, with gross proceeds of €775m, with the potential subsequent sale of Sipo in China, subject to reaching an agreement with our local partner. The retained business will now form the new Industrial Specialities sector and play a critical role supporting the efficiency of the Consumer Care and Life Sciences sectors on common manufacturing sites.

In half one, the combined PTIC business delivered £343m of sales and £61m of operating profit in the half. Had we made the divestment on 1 January, the impact on the Group overall would have been to reduce sales by £191m and adjusted operating profit by £39m, as shown in the table. This includes sales from a new supply agreement with Cargill and the impact of stranded costs across all three sectors, which we expect to mitigate over time through future growth. Going forward, we expect the Industrial Specialities business to operate with a return on sales at or just above 10%.

Turning to cash flow, EBITDA grew strongly. Working capital increased by £184m, primarily reflecting the impact of inflation on inventory value and receivables. The bar chart shows that two thirds of the working capital increase reflected the simple pro-rata impact of inflation, at constant days cover. One third reflected investment for growth, primarily higher receivables. We expect working capital to reduce in the second half of the year, particularly if raw material inflation recedes, as expected.

Net proceeds from the divestment were £613m, reducing half year net debt to £331m, a leverage ratio of 0.6x EBITDA.

This slide shows where we intend to use those proceeds.

Our capital allocation policy remains unchanged and the divestment will allow us to deploy more capital in line with this policy, to support expansion in higher growth, higher returning Consumer Care and Life Science markets. We have a rich seam of growth opportunities and will prioritise organic capital expenditure to drive value creation through new capacity, product innovation and expansion in attractive geographic markets.

This will be complemented with targeted acquisitions in technology adjacencies, in line with our preferred approach to 'buy and build'. This is demonstrated by our recent investments in Patient Health, where we have secured new technology platforms, like vaccine adjuvants in Denmark and lipid systems in the US through modest acquisition spends, then built global scale through organic investment.

Our typical capex investment spend is around 6% of annual sales, just over £100m currently, and we believe this is sufficient to maintain our asset base and deliver target organic growth rates. In addition, we are investing £160m over four years to access fast growth pharma opportunities, which Steve will cover shortly.

We are also committed to pay a regular dividend to shareholders, with an 8% increase at the interim, continuing our 30-year record of dividend growth. In addition, we monitor leverage against our target policy of 1-2 times EBITDA, returning surplus capital to shareholders, when identified.

I will now hand you back to Steve to look at our strategic opportunities.

Steve Foots, Group Chief Executive

Many thanks Jez.

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For the first time in our history, Croda is now solely comprised of 8 growth businesses, supported by Industrial Specialities. We expect each of them to deliver sales growth of at least 1 and a half times GDP with Return on Sales above 20% and ROIC over 2x the cost of capital. 10 years ago you would be investing in one business called Actives. Now you can take your pick! You might choose to invest in us because of our Personal Care, F+F or our Crop franchise. Or maybe you invest in Croda because of our emerging Health Care platforms. There is a much broader breadth and depth to our growth than in the past.

We also no longer have exposure to industrial markets to worry about and the portfolio has rich innovation in each area. So this increased focus makes our future growth much more resilient, even in a more uncertain environment.

In Consumer Care, Beauty Actives is still the leading innovator in the skin care market with a strong position with prestige and masstige brands. Beauty Care is a stronger, broader business with multiple revenue streams, and growth is being driven by a structural shift in behaviour by customers and consumers towards sustainable ingredients. F&F has significant exposure to fast growth markets, underpinned by a highly flexible and responsive business model. Whilst Home Care is concentrated on fast growth-niches that should be broadly unaffected by the macro. So Consumer Care has a much broader portfolio than we had 2 years ago.

In Life Sciences, we expect all businesses to be pretty immune to any deterioration in the macro environment. People don't compromise on health, and farmers continue to look for ways to protect their crops and get more output from their land.

As consumers think more and more about their impact on the wider environment, our customers want us to deliver novel sustainable ingredients, and this has become a real differentiator. We are leading in four areas.

Firstly, our target is for the raw materials that we use to be 75% bio-based by 2030. By continuing to move away from petrochemicals, we are helping our customers to meet their own commitments to fossil-free formulations.

Secondly, by ensuring that our raw material sourcing has a positive impact on communities in our supply chain, giving our customers an even stronger platform from which to market purpose-driven brands.

Thirdly, by decarbonising our operations and supply chain to meet our 1.5°C Science Based Target. We expect to reduce our product carbon footprint by 35% and we are developing a Scope 3 Index so our customers can see how our actions are benefitting them.

And fourthly, with R&D projects that help to transition our portfolio and enable our customers to meet their own sustainability goals.

We are combining leadership on sustainability with market-leading innovation to deliver sustainable growth. Our focus is on niche areas, developing next generation products.

R&D is driving growth in our Beauty Actives business. Recent launches have included an innovative retinol anti-aging active. By encapsulating the active, we have improved skin penetration by more than 9 times creating the most sustainable retinol-containing complex on the market.

Beauty Care is delivering more consistent top line growth, particularly in the higher value sun and hair care markets. Sales of ECO bio-based surfactants continue to accelerate, both in Beauty Care and Home Care – where they have doubled in the first half year.

And in F&F, we have launched encapsulated fragrances, one of the first on the market, and expanded our presence in Indonesia and South Africa, as well as launching in Brazil.

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Innovation is Croda's lifeblood and the bedrock of our future growth. We continue to make significant investment in R&D and are taking bigger bets with more ambitious projects.

Our pipeline is being strengthened by our biotech investments, such as Nautilus' expertise in blue, or marine, biotech. We are using micro-organisms found on the ocean floor to find new ways of treating dandruff, skin aging and inflammation.

Our new biotech-derived surfactants have expanded the options available to customers. They are helping to increase our bio-based portfolio and meet our ambition to eliminate petrochemical derived surfactants globally by 2030.

And biotechnology is opening up new approaches to making fragrance ingredients, one of the ways in which we are making our F&F portfolio more sustainable.

Investments in organic expansion form part of the redeployment of capital from the PTIC divestment into innovative, fast growth markets.

We are growing our IP with more specialist scientists coming into the business. We're expanding sustainable technologies building on growth in areas like sulfate-free surfactants and ingredients that double the life of fabrics. And we are also increasing geographic coverage, particularly in China.

These investments are delivering results and strengthening our platform for growth.

The vast breadth of the Consumer Care portfolio is at an all time high. Tens of thousands of products focused on fast-growth, high value markets. And our pipeline is getting stronger, responding to both current and future trends, creating next generation technology, replacing petrochemical formulations. We are winning by focusing on premium, share, agility and fast growing and sustainability driven niches.

So Consumer Care has developed very significantly to become an even more resilient growth platform, underpinned by a strong pipeline and focused investment.

Turning to Life Sciences, growth is being driven by demand for high-value delivery systems to enable the latest biological drugs. Biologics is a huge market accounting for 70% of top 20 selling drugs, enabling doctors to treat diseases when they could previously only treat the symptoms.

So going across the 3 areas that you will be familiar with, growth in excipients is being driven by expansion in injectable drugs using biological APIs, such as monoclonal antibodies with 5,000 clinical trials currently underway.

Adjuvant demand is being driven by new vaccines, greater adjuvant use to enhance the body's reaction to vaccine protection and WHO programmes to expand vaccine take up in developing countries. Vaccines are also increasingly being used to trigger an immune response to an already contracted disease, to treat HIV for example. There are 1,500 clinical trials for these therapeutic vaccines underway globally.

And whilst Lipid systems have played a critical role in Covid vaccines, they offer significant potential beyond COVID-19 as the preferred delivery system for nucleic acid therapeutics. The mRNA market is expected to reach \$35bn over the next 15 years, and 180 clinical trials are already underway for applications across preventative and therapeutic vaccines, and therapeutic drugs.

Biologics also has the potential to revolutionise crop science. With our innovative delivery systems, Croda is well positioned to benefit from the move into Biopesticides which are growing at twice the rate of traditional crop care.

Our biopharma pipeline is very exciting indeed. We are partnering with major pharma brands to provide speciality excipients for monoclonal antibodies. Applications range from oncology to combating macular degeneration, a condition that effects peoples vision.

With the only aseptic manufacturing site for vaccine adjuvants globally, we are the gold standard for aluminium adjuvants used in a third of preventative vaccines. We have a strong sales pipeline across a variety of vaccines including flu, pneumonia, shingles and HIV.

Therapeutic vaccines promise even faster growth rates, enabling the treatment of diseases such as HIV with a new vaccine that is in phase 3 trials in Africa.

And our Lipid Systems are being used in preventive vaccines for flu and RSV, a common virus seen in schools during the winter, and in therapeutic vaccines for cancer.

All of this highlights how we are involved in helping to treat some of the biggest diseases in the world creating more and more opportunities for Croda.

And similar to Consumer Care, our innovation pipeline in Life Sciences is extremely strong. Here are some examples of applications that use our current generation delivery systems but illustrate the focus of our future innovation.

This first one uses one of our specialist high purity excipients which has been developed for APIs that require superior solubility performance. They will help enable diabetics to take insulin orally rather than by injection. This project is currently in phase 3 clinical trials in the US.

Our vaccine adjuvants are being used in a novel personalized immunotherapy for the treatment of patients with melanoma, lung cancer and bladder cancer. Phase 2 clinical trials are underway in Denmark.

And most exciting of all, our Lipid Systems are being used by a customer which recently completed the world's first dosing of a patient with a gene editing therapy, as part of a clinical trial for the treatment of heart disease.

We are truly applying our Purpose of smart science to improve lives.

And again, we are driving growth through focused investment.

As Jez said, our preferred approach is to adopt a 'buy and build' model, securing new technology platforms and know-how through modest acquisition spends then building site expansion from within.

We have already doubled capacity at our speciality excipients plant in Pennsylvania and are rapidly expanding our adjuvant systems facility in Denmark.

Our priority is continuing to build our knowledge base in lipid systems. So we are investing in our R&D and pre-clinical capability at Avanti and in a second scale up site in Pennsylvania to augment current commercial-scale capacity at Leek in Staffordshire.

Between 2021-2024 we will invest up to £160m for new capacity to deliver on the exciting pharmaceutical platform we are building. Complementing our own investment, the US and

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UK governments are co-investing up to £75m, recognising the importance of new generation delivery systems to drug discovery.

These are already some of the highest returning investments in our portfolio and the expansion will drive accelerated growth.

We are going to go into a lot more detail at our investor event in October, but our pipeline in biopharma will be a significant growth engine for Croda and it is getting bigger. In the first half year, we secured 30 new customers and 80 new clinical and pre-clinical programmes, bringing the total to 330. More than three quarters of these programmes are for non-COVID-19 applications, up from two thirds just six months ago.

The pie chart in the middle shows the proportion by each product class.

Monoclonal antibody and oncology programmes make up the majority of our speciality excipients pipeline as well as immunosuppressants.

In vaccine adjuvants, in addition to our continued focus on fighting against WHO-listed diseases, immunotherapy applications such as the personalised cancer treatment I mentioned earlier, are becoming increasingly important.

And in lipid systems, all of the new programmes in the first half were for non-covid applications. In this business we are now involved in more oncology and gene editing trials than we are for covid, and new mRNA vaccines beyond covid are a particular area of focus.

So finally coming to outlook. With stronger profits than anticipated in the first half, full year profit before tax will be modestly ahead of our previous expectations. That is despite growth moderating in consumer markets in the second half and full year lipid sales reducing to \$150m vs \$230m last year. Our improved overall outlook reflects the things I have talked about today – a more resilient growth platform in Consumer Care, ongoing demand in Crop and continued overall growth in Health Care.

In summary. Croda's powerful operating model, increased focus, greater innovation and exciting pipeline underpin our resilience, ensuring we are even better equipped for future growth.

Now, Jez and I are very happy to take your questions. Over to you.

David Bishop, Director of Investor Relations

We'll now move on to the Q&A section of the event. Just a reminder, if you're on the webcast please type your question into the relevant box and I'll read it on your behalf. For analysts on Zoom, please use the raise hand function and you'll then be invited to unmute your audio and video, if applicable, introduce yourself and your institution and then go ahead and ask your question.

The first question over the webcast comes from Gareth Hayward, who asks, what businesses are now in Industrial Specialities, and what's going so right at Crop Care?

Steve Fooks, Group Chief Executive

Hi, Gareth. Morning to you as well. We were just talking about Nottingham Forest earlier, by the way, everybody. David's team just got promoted.

But anyway, back to business. Industrial Specialities is still a significant business for Croda. We've reduced our Industrial portfolio, in that the small business which were in the core sites that we couldn't, they're either product streams rather than wider businesses, that we couldn't really sell as part of the Cargill deal. So it's things like water treatment, fabric and fibre protection, and there's a bit of electronics in there, there's a bit of emulsion dispersions in there.

And then of course on top of that there's a supply agreement with Cargill, which is our big customer. So we've got transitional service agreements with them, but we will be supplying them on a long-term basis. So, all of that in the round is in there.

In terms of Crop, Crop's had an outstanding year. There's three things in the Crop results. You've got this big macro positive, which I think you all know about, big, Crop prices are higher for longer. And the Ukraine events, unfortunately, prolonged those. When you think about it from the disaster point of view, but from a Crop point of view, prices are going to stay longer for a while. So you've clearly got a helping hand in the macro.

You've also got two other things. There's a big move to sustainability. It's not just in Home Care and Beauty Care. It's in Crop. And we're partnering up, probably more so now than we've ever done, with the big Crop players. So that's getting more traction, more business.

And I think the other thing is the innovation. We've got world-class platforms in there. You tend to think about us in terms of Beauty Care and in Actives and Pharma, but the Crop innovation platform is great.

So you've got those three things together, that's driving a really strong performance in Crop. I think our view on Crop generally is that that will continue well into next year, as well. So, clearly there's some tougher comparators in the second half, but we're expecting the dynamics of Crop to remain positive like that for quite some time to come.

David Bishop, Director of Investor Relations

Thanks, Steve. We'll now move on to analysts, starting, I think, with Matthew Yates's question.

Gunther Zechmann, Bernstein

Sorry to jump you, Matthew. I hope you get to go next. I'll start with two, then. Firstly, Steve, Jez, on the LNP business. Sorry to start on that point. But it seems that the visibility of the business you have there has improved significantly with the forecast you're giving out, or the projections you're giving out to 2025. So my question is, what is structurally or contractually changed in that business? I think Pfizer was more at quarterly rolling visibility, so that seems to be quite a step function to the better. That's the first one.

The second one is, like all of us, I'm elated that we only have to deal with earnings twice a year now, and not with Q1 and Q3. I'm sure a lot of my sales side colleagues share that feeling. But can you give us an indication of the volume decline in the second quarter versus Q1, and the exit run rate out of the second quarter? And if there's any differences by business, then that would be helpful as well. Thank you.

Steve Foots, Group Chief Executive

Yes, thanks, Gunther. Somebody beat you to it for the first question. That's unusual, isn't it? Yes, just on the LNP, the way we look at that is, we've done a lot of work since we last spoke with you on the pipeline. I think that's the important point. So you'll hear more about

that, the innovation pipeline. We've got a sales pipeline and an innovation one. We're mapping every project to our risk-weighted approach and average, in terms of the size of that pipeline, and we can monitor that more closely. So, again, you're going to hear a lot more about that in early October.

I think there's two or three things in this. Clearly there's the moderation that we would expect, and you would all expect, from the vaccine roll-out, to be more getting into what I would call a natural rhythm. And we feel like, with our partner, there, and others that we can call that, more sensibly now than we've had in the past, we're now in a natural relationship with them where, the first year, we were chasing our tail, as were they, just to get product to market. Now they're in a good position where they've got stock on the ground, and we have as well. So we're in a normal rhythm to that relationship.

So I think it's easier to call the future than it was six to 12 months ago. Although there's still a bit of risk involved in that upside, as well as potentially downside, but it's much more certain now than it was probably about six, 12 months ago. So I think it gives us more confidence.

The other thing to point out, though, is, this 120 in 2023, more than half of that revenue will be in non-COVID projects. And in 2024, more than two-thirds of those projects, in sales value, will be non-COVID. So I think the point we're trying to make is, it's the innovation pipeline that we're mapping that's driving that assurance and confidence in those numbers in the next two or three years.

But, you know, Croda, as we've always said, by 2024/'25, the large portion of this is going to be non-COVID-related. And we're in, we're supporting a huge stream, which you can see with some of the examples of treatments, from lung cancer to bladder cancer, from heart health to diabetes, from RSV to HIV. Lots of different treatments. So there's not one project in here, there's several projects, and that's really the importance and the point we tried to make, is, the assurance is not coming, it's coming more from the innovation pipeline.

In terms of volumes, I'll kick off and then I'll get Jez to comment on that. You can see in the, we've had a bigger deviation in Industrial than we've had in Life Sciences. I think that's fair to say. And then somewhere in the middle is Consumer Care.

If you look at Consumer Care, this minus 5% in the first half, when you look at that, there's three moving parts in that. Life Sciences is positive, and that's largely Crop driving that. But we're talking about micro volumes, particularly in pharma, so the volume end is more the Crop end plus the Consumer Care.

So, the minus 5% in Consumer Care effectively is three different things. If you remember last year, particularly in the first half, Q2, there was a big surge in demand, plus real demand, plus restocking. So the comparator last year was tough because of that restocking of the pipeline. That was one thing.

And the second thing is, we haven't supplied everything we wanted. We've still got some supply constraints. Outstanding orders are still in a higher position now than they normally would. And we've got one or two raw material constraints in Home Care, and just supply issues generally, in Beauty Care particularly, that's not allowing us to satisfy all the demand. That's second.

And then the third thing is this de-marketing point. Croda is very good at de-marketing, and when capacity is tight, we tend to de-market at the lower end, which tends to be the more volume end.

So actually, when you look at that in the round, we think the true volume decline in Consumer Care is about 1, minus 1, minus 2%, in the round on an ongoing basis. And when you see the inflation in the business, and the 20% in price in the mix, a negative 1, 2% on volume, we think, is perfectly acceptable given where we are. And as you can see, profit growth ahead of value growth, so we're in a good shape there. So that's the response to that.

Gunther Zechmann, Bernstein

Thanks.

David Bishop, Director of Investor Relations

Thanks, Gunther. I suggest we try Matthew again, please. Matthew, go ahead and ask your question. Sorry, still no audio. Apologies, Matt. We're going to have to move on.

Steve Fouts, Group Chief Executive

Matt, if you could send an email to David, just with your details, so the question will, we'll read it out and we'll try and answer it for you.

David Bishop, Director of Investor Relations

Let's move to the next analyst, please.

Charlie Webb, Morgan Stanley

Hello, can you hear me now?

Steve Fouts, Group Chief Executive

Hi, Charlie. Morning to you.

Charlie Webb, Morgan Stanley

Brilliant. I'm just going to maybe follow up, firstly, on Gunther's question around demand. Just thinking in Personal Care, that underlying small negative which you saw on the first half. How do you think about the second half? Obviously raw material inflation, presumably, is slowing, so the price component will be a little bit in the second half. Presumably de-marketing doesn't carry on forever. And the comps I expect are easier, right? So, how do you see the organic profile of Consumer Care in the second half? That would be the first question.

And the second question, around the leverage position, obviously, ending the year and in the half, normally six times net debt to EBITDA, you talked about wanting to reinvest that in growth. You see lots of exciting opportunities organically, but how do the inorganic opportunities look at this stage? Where is that focused? Are there opportunities out there, that you think are exciting? And any additional colour around that would be very helpful.

Steve Fouts, Group Chief Executive

In Consumer Care, the way we look at that is, we're still very upbeat about Consumer Care. L'Oréal being out today, or last night and today as well, and our view has always been quite similar to them. We've had two years of a pandemic, and let's not forget, there's large parts of the world that are just coming out of the pandemic now. We've started to see this

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resurgence in Asia, second quarter versus first quarter, because of the unlocking of restrictions. Still not fully there. Read-across to China there.

So this is pent-up demand to socialise, through travel, through just going out with friends. So that all helps to drive personal care. There's an indulgence in personal care that we haven't seen for two years. We expect that to continue.

So, the appetite to purchase personal care products in the industry has never been stronger, and I don't think a recessionary environment is going to significantly slow that down. Clearly there's going to be areas around the edges that will moderate. I think they always do. But we're not expecting, in our forecast, for a real cliff-edge volume reduction in personal care. We expect it to sort of cool off a little bit.

We're going to get to stock levels that you'd expect, and demand may moderate a little bit, but we're not forecasting a cliff-edge volume decline on the back of that. And we'll manage that in the normal way.

And as you saw, I think as people saw Croda's figures in the pandemic, the harshest, probably, trading environment we're ever likely to see, I think, the personal care business stood up very strongly to that.

So I think we're optimistic. Innovation pipelines are strong. The more important thing for the Group is making sure that those innovation projects move with pace, so our customers don't reduce their investments in the innovation projects through any uncertain environment or recessionary environment. And there's still a lot of pent-up demand there as well.

So, yes, we're cautious with the second half in our numbers. We expect some moderation, but not massive, in terms of that.

And in terms of your leverage point, clearly, we'd like to put that to use, the proceeds. We're in a brilliant position. We've got strong trading, we have got a strong balance sheet. We've got plenty of optionality there, and we'll take our time. We're in no rush. But we've appointed chief scouts in both of our big businesses, and they are some of our best business developers in the company. We're not after particularly - we're after target technologies rather than target customers, but the target technology leads us to that customer. So we know what we're looking for, and our lists are probably very different to virtually everybody out there. So we have to be patient with them. They're not long lists, but they're interesting lists.

And I've always said, when you come into, you come out of a recession, there's always great opportunities. And Croda, I've lived through five recessions in 20 years in Croda. The opportunities when you come out of a harsh trading environment, like what we have done, there's normally more opportunities than you think. So we're flexible, we're open, but we're very sensible with our money. So we don't feel like there's a burning need to deploy it with speed. We'll do it in the right way.

Charlie Webb, Morgan Stanley

That's really helpful. And just maybe following up on that point around raw material inflation, the second half vs. the first half. Obviously, we saw a lot of inflation in the first half. How do you see that in the second half, and what kind of reciprocal pricing would you expect to see, to offset any residual inflation?

Steve Foots, Group Chief Executive

Yes, our view is, it's probably about 2% in Q3 vs. Q2. It's a mixed bag still out there, but an extra 2% increase we're forecasting in Q3. So we think it's peaking. We expect it to peak in the second half of the year, raw material pricing. And that's a significant part of everybody's inflation environment, so we would expect that to moderate. And therefore, the need for further increases is very much more targeted now on individual projects, rather than across the board. So we're not expecting to put full scale across the board increases through, because, as I said, we're expecting raw materials is plateauing now. Jez, any additional point?

Jez Maiden, Group Finance Director

No, I think that's fair. I think, yes, raw materials probably somewhere in that 2 to 5% reach, and maybe sales price nearer 2%. But we did call it out in March, so we got it wrong then because of Ukraine. But it certainly feels, after six quarters, seven quarters now of some increases, that we're getting to the end of that period, and we should start to see commodities generally coming off. Obviously particularly given that we see a little bit of softening on the more industrial side of markets, so that should be helpful.

Charlie Webb, Morgan Stanley

Fantastic, thank you very much.

David Bishop, Director of Investor Relations

Thanks, Charlie.

Steve Foots, Group Chief Executive

Thanks, Charlie.

David Bishop, Director of Investor Relations

There are two questions here from Matthew Yates at Bank of America, one of which is a follow-on to Charlie's question.

Jez mentions that there might be some working capital release in H2 if raw materials fall. From a profitability perspective, when you have that sort of cost deflation, would you be passing it all on to customers or would you plan to keep some of the savings and drive up your own profitability, particularly in Consumer Care?

And then Matthew's second question is in relation to Health Care. Steve, you kindly gave the number of 330 projects in the health care pipeline, but I've no idea what to do with that in terms of translating it into financials. I'm sure there must be a huge variation in project value and likelihood of making it through to clinical trials. So, at the risk of front-running your planned seminar after the summer, is it reasonable to think this business is running a bit ahead, or substantially ahead, of the targets you first outlined in 2019? And that's reflected in a sustained high level of capex to support that growth.

So, perhaps turning to raw materials first of all.

Steve Foots, Group Chief Executive

Yes, well, let me, we'll both answer that, the first bit commercially. I'll let Jez talk about working capital, unwind, and things like that. We're not forecasting in the model a massive deterioration in raw materials very quickly. So the issue with raw materials, I think, will plateau. And if they did come crashing down, which we're not expecting, then we will of course pass some of those reductions back.

But what you tend to find in our model is, in rapid raw material, inflation or deflation, we tend to hold on to a bit more margin at the edges, because we're up quickly to pass prices through, as we've demonstrated in the first half. There's no lag there from us. And when we come down, we'll just be a bit slower to pass the increase on, but we will pass a significant amount of those on.

So, net net, it's a slightly margin improvement story for the Group. Jez, the working capital is slightly different.

Jez Maiden, Group Finance Director

Yes, from the working capital point of view, clearly, we've seen very sustained increases in working capital over the last 18 months, almost exclusively reflecting the higher values of inventory and of receivables in there. And so, certainly given our view that we should be seeing a more stable period at least on raw material inflation, then we'd expect to see a stabilisation of working capital. And then, obviously, if we see prices coming down later in the year, then that will be reflected in working capital. But I think we're probably through that peak in working capital, in the same way that we're probably through the peak in raw materials at the moment.

But we keep the number of days constant, and just manage our business. We've probably added a couple of weeks of inventory over the last 18 months because of supply chain disruption, particularly caused by global distribution, so we'll keep that in as a buffer to protect service. But the great thing has been to see that service has been improving steadily through the first half year, so we don't really need to do any more of that at this point.

Steve Foots, Group Chief Executive

Just on your Health Care point, you make a good point, and the \$64-million question is, what does it all mean? We didn't want to give you too much information today, because we've got Capital Markets Day in early October, and as I said, the feature of that will be, it will be exclusively the Pharma business of Croda, new team and fresh information.

But a lot of that will be around bringing to life the innovation pipeline as we know it. And we're very reluctant to go out too early with numbers that might overexcite people. We've got to make sure ourselves, as you say, they're all in different stage of clinical programmes, some of them much bigger than others, but in the round, the fact is it's the sheer breadth of the treatments that we're following, and the sheer breadth of the products that we have in there, which are the really big important things.

Since we last spoke with you, we picked up another 80 programmes in the first half of the year. So we're now at 330 customers across these three new customers, across these three platforms. So, in the round, it's all shaping up nicely, but what we need to do is try and guide you and educate you and bring to life that, not just in examples but in the framework.

So I think what you're going to see in October is certainly the innovation framework, and how that's linked to the wider strategy, and breaking that down in the three component technology platforms. So there's more about that in the future.

Jez Maiden, Group Finance Director

I think Matthew makes a good point as well about the capex.

Steve Foots, Group Chief Executive

Yes.

Jez Maiden, Group Finance Director

I think that that pipeline development does give us confidence in the capex. If we were critical of ourselves in past, it would be that we're sometimes a bit slow to put the capex in. So, in the case of the Speciality Excipients platform, we were probably surprised by the rate of growth that we saw that we covered in the 2019 Capital Markets Day, and then had to put capacity in, and we were probably constraining demand somewhat while we were building that capacity.

We inherited the same situation with the Vaccine Adjuvant business in 2018, and we've been willing to put capital in to expand that, because we've seen that business double since we acquired it at the end of '18. And so, on the Lipid systems platform, we want to make sure that we're fully prepared for what we see as, really, that market taking off commercially from 2025, notwithstanding, obviously, the COVID demand that there has been up to now. And that's what gives us the confidence about spending the £116m sterling of additional capex over the four years from '21 to '24, because we can see that pipeline coming through, and we want to be able to serve those markets as the growth comes.

David Bishop, Director of Investor Relations

There's a follow-up question from Taneka on the webcast. He says, is there a risk that there'll be excess capacity in three years' time?

Steve Foots, Group Chief Executive

Yes, I don't know whether that's in relation to Lipids, or is that in relation to just generally for the Group?

David Bishop, Director of Investor Relations

I think principally in relation to the health care and pharmaceutical capacity.

Steve Foots, Group Chief Executive

Yes, unlikely, we would say, there may be, but let's be honest. We want to run, we don't need to run our assets at 100% utilisation. We're not a continuous process built company. We work in batches, and it's purity and quality in Pharma which is the most important thing.

So, what we have to make sure of is, that eventuality when some of these products hit the market and they're more significant than we expected, or they're earlier than we expected, that we've got a multi-purpose set of, like a chemistry and a biochemistry set, on our sites that allows us to cater for that demand.

And, as I said, the interesting thing is, there's multiple products now in the pipeline. There's three hanging around, three big technology platforms, so we have to be able to have that breadth and that capacity to cater the demand for that. So, effectively, as Jez says, thinking about a five-year planning programme that we're moving into now. We're moving three to five-year plan. Part of that is to really imagine where this growth's going to be in three and five years' time and invest now.

So I think we're doing all the right things for you, for you and for us. And in terms of the overall spend for the Group, it's trivial. It's modest compared to the potential performance benefit we get with the results.

Jez Maiden, Group Finance Director

The return on capital we achieved from our organic programme is the best that we can achieve. We don't have to pay away goodwill and intangibles. We can get a very strong return on capital that's still the best place for us to deploy capital. And we're still seeing 10 to 30% growth in the existing two, prior two Health Care platforms, and everybody knows that mRNA demand is going to really drive Lipid, so that market's going to grow very rapidly.

Steve Foots, Group Chief Executive

And the other thing as well, just thinking about this, the bigger disappointment, if we were here talking to you all about the frustration, because we've got big demand and we don't have the supply, that would be remiss of us as well. So we're just trying to bake in some contingency and insurance. And we might have got it wrong, but if we've got it wrong, we'll still have a great return, because we'll probably get it wrong on the downside, we need to invest a little bit more. So, yes, we're in good shape, as you say. So, using that wisely is probably the best use of our capital right now.

David Bishop, Director of Investor Relations

Thank you. We're ready to take the next analyst question on Zoom, please.

Charles Eden, UBS

Hi, good morning. Can you hear me?

Steve Foots, Group Chief Executive

Yes, hi, Charles. Younger version of Stottie. Good.

Charles Eden, UBS

Indeed. Morning, everyone. Thanks for questions. Just two from me. Firstly, on Life Sciences. Given the commentary on momentum in the other component of the division outside of Lipids, it feels like sales in the division might be able to be held flat or even grow modestly in '23. Is that a fair conclusion, I guess, net of that \$30m dropping Lipid sales you're guiding to?

And then my second question's a follow-up on the leverage commentary and the inorganic opportunities. Jez, maybe this one's for you. Is there a net cash level which would see you say, okay, it's time to return some of this to shareholders, either through buybacks or special dividends as you've done in the past? Was that not really in the thought process at all at this moment? Thank you.

Steve Foots, Group Chief Executive

Yes, Life Sciences, I'll let Jez do the leverage. The way we should look at that is, you've got the numbers now that you can program in for the Lipid systems. The rest of the business, we'd expect to continue to trade 7 to 10%. It's demonstrating that. Even in a harsher trading environment, we think the opportunities are still there. So, when you model that in your system, I think you'll get there, to a Life Science profitability around last year, maybe a little bit more.

Jez Maiden, Group Finance Director

Yes, Charles, I think, you're right. We were only expected a \$30m reduction from this year to next year on the Lipid platform. I think the important thing, as Steve said in the commentary, was that we've come down \$80m year on year, and yet we've still grown the profit and sales in Life Science, and of course for the Group overall in significant terms.

So, yes, absolutely. I think our point today is, there's only another \$30m to come out of that platform, in our view, before we're normalised. And therefore yes, definitely, the Life Science growth in Crop, and the other Health Care platforms will more than offset that. So, yes, I think we'll see positive growth, just be constrained slightly by the Lipid reduction that we see.

In terms of returning capital, look, we're very disciplined in terms of the approach that we take to deploying capital. We don't want to deploy capital into marginal projects. We want to deploy capital in projects that are at least two to three times cost of capital. Because that's the Croda way. It's about keeping special and valuable, not just becoming big.

We do see the additional opportunities at the moment to deploy capital organically. We're spending about 100m annually on capital, and then we have this 160m programme on top over four years, so this year probably about 150m. It was quite light in the first half, but we've got the part-government-funded project starting in the second half. I think we'll spend about 150m organically, and that will continue through '23, '24, as we go through these Health Care programmes.

And, as Steve said, we're looking for what are likely to be bolt-on, adjacent acquisitions across Consumer Care and Life Sciences. That said, we're probably still going to generate much more capital than we need, and so we'll keep that capital allocation under review.

But we were very clear when we did the announcement of the disposal last December. We start with where we can deploy capital, and I think investors would like us to deploy capital in high-return opportunities, rather than give it back. So the discipline is there, but we're not looking at that short term. But it's very much part of our capital allocation discipline.

Charles Eden, UBS

Thanks, both, and I appreciate you not mentioning my football team, Steve. Thanks very much.

Steve Foots, Group Chief Executive

Well, we could, but we'd embarrass everybody, Charles, wouldn't we?

David Bishop, Director of Investor Relations

Thanks, Charles. Okay, next question. Good morning, Mubasher.

Mubasher Chaudhury, Citigroup

Morning. Hope you can hear me.

Steve Foots, Group Chief Executive

Yes, fine.

Mubasher Chaudhury, Citigroup

Morning, guys. A couple of quick ones, please. Can you provide an update on the Iberchem side of things? How did that perform in the IH, and I know it's still relatively early days on the synergy side of things, but just a couple of comments around that would be helpful.

And then on the Avanti sales. You're giving the top line outlook. Is that coming in at the same profitability as it was for the last year and first half? Or is it dropping in profitability as well? Just some comments around that would be helpful.

And then, finally, are you seeing a slowdown in July which is driving your cautious outlook? Or are you just being conservative given where the macro is and taking a bit more of a cautious approach?

Steve Foots, Group Chief Executive

Yes, a few questions in there. I'll do Iberchem, and Jez can do the second one, if he can remember it, and I'll do the third one.

Iberchem, trading well and improving. It's Q2 better than Q1. And its reported revenues are in the teens, but the organic underlying is probably like for like for like at high single digits. So we're really pleased with that. Good shape to the growth. And they've been treading in a difficult environment as well, as you know, with raw material prices at its sort of ten-year high.

So we've been pleased there. We'll continue to invest. We've started the synergy capture, as everybody knows, and we're investing in Brazil, South Africa, Indonesia. And as each three months, six months goes by, it's getting a bit more integrated part of Croda in our thinking.

So, very pleased with where they are. 83% of their sales, as a reminder, is in the emerging countries. So, once the emerging countries start to fully unwind, with no lockdown restrictions, then we're pleased that headwinds, one or two of the headwinds that they've had, sort of go away. So we're pleased with that.

In terms of, what was your third? I'll take your third question.

Jez Maiden, Group Finance Director

July outlook.

Steve Foots, Group Chief Executive

Yes, July outlook, and I'll go back to Jez. Yes, we're cautious, naturally, like everybody is. I think you'd be surprised if we weren't, given the noise around. But we're not really seeing the exit rates in - it's best to look at regionally rather than bisect it. The exit rates in Q2 were strong everywhere, with the exception of some moderation in America. We've seen a couple

of months of trading, which is a bit softer but still positive, but softer than it was in the first three or four months.

And so we're expecting, we're moderate, we're trying to forecast into the second half that continued moderation. Maybe a little bit of moderation elsewhere, but you know, people forget, but people are just coming out of lockdown as well as the disposable income squeeze as well. So you've got a number of different trade-offs out there, and it's very difficult to call.

But our general view is one of caution for the right reasons. We don't want to get ahead of ourselves, and neither do you. And you wouldn't believe us anyway. So I think that's right. Jez on the other one.

Jez Maiden, Group Finance Director

Yes, hi, Mubasher. I guess we tend to use a sort of Avanti and Lipid systems language a little interchangeably, so if I could just start there. The Lipid systems platform obviously has at its heart the Avanti business that we acquired two years ago now. And then we have the second site in the UK, which is the scale-up site, which Croda already owned. And then we recently announced that we're going to create another scale-up site, in this case, this time, in the US, partly supported by the US government.

So I guess Avanti is the core of that, but it's the Lipid systems platform, really, that we're focusing on. And within that Lipid systems platform you've probably got three components.

First of all you've got the business that has been built up over 50 years, which is the Avanti R&D business, and that's serving 3,000 customers in pre-clinical and clinical stages. And that's one of the excitements originally about acquiring Avanti, was, it gave us that access to R&D in pharma that we hadn't had before through our existing Pharma platforms, which tend to be late-stage and commercial.

So, that Avanti business continues to trade really well, a \$40m business roughly when we acquired it, good profitability, and that's expanding as it expands its R&D presence.

Second part of the platform is clearly the COVID piece around the principally around the principal customer contract. That profitability has come down a little bit. We indicated that the year one profitability for that contract was higher than the year two and year three profitability, but that just really reflects the fact that you get better at what you're doing, you get more efficient. So, overall profitability in that contract, similar level to where we were before.

And then the third component, of course, is the pipeline of opportunities developing from the Avanti R&D engine, and we'd expect the profitability levels in that to be at least as good as what we've seen in COVID experience.

So, long answer to basically saying, no, the overall profitability of the Lipid platform is consistent, and the profitability of that platform in the rest of Health Care is also quite consistent as well. So, yes, we're not seeing significant erosion or anything like that. It's in a good place, and all of these important projects coming through for mRNA are going to keep the profitability very good in that platform.

Mubasher Chaudhury, Citigroup

Helpful. Thank you, guys.

David Bishop, Director of Investor Relations

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Thanks. Next analyst, please.

Samuel Perry, Credit Suisse

Hi, guys. Just on Lipids, I understand that there's a greater proportion of non-COVID sales, but what gives you the confidence over the longer-term sales forecast, given that you've effectively just cut the H2 contribution by the best part of 50%?

And a related question, just on stocking, how much visibility do you have over inventory levels at Pfizer, and are we likely to see a situation where, as demand comes off, you get a de-stocking situation from them as well?

Steve Foots, Group Chief Executive

Yes, we've sort of tried to answer that with the other questions. Look, it's all around the pipeline, the innovation pipeline. As a reminder, next year, more than half of this revenue will be in pipeline projects, non-COVID projects, and all of those are, from our point of view, we can forecast with more, with quite a lot of accuracy. They can better, in 2023, two-thirds of these projects.

So the innovation pipeline has got a lot of discipline to it, and it's mapped by individual projects. So that gives us the comfort and confidence of where we're going. So I think the point we're trying to make to your Pfizer thing is, Pfizer becomes less, not less important but it's less of the weighting of the Lipid systems in 2023 and 24. It becomes well less than half, and well less than, round a third, potentially less than that, in 2023.

Jez Maiden, Group Finance Director

'24.

Steve Foots, Group Chief Executive

'24. And a lot of that is because of that reaching a natural rhythm. I think we're not far from reaching a natural rhythm, and that's why we're calling out with Pfizer the '23 and '24 numbers now. Because the difficulty in 2021 was because you're chasing your tail, and it's going out as quickly as you're making it. And same for them. It's very difficult to really guesstimate and get an accurate forecast on that. And that was Pfizer's comment.

But now, with this natural rhythm around the world, where they've got a reasonable amount of government contracts that they have visibility on, they can work back through that, and they've got a stable stock position then. It's more forecastable in our way and in their way. So that's why we're coming out with those numbers.

It's a combination of the business settling down to a natural rhythm, with Pfizer, and the innovation pipeline projects becoming more targeted from Croda and better understanding the nature of those.

And as I've said, repeating what I've said in the past, you'll hear a lot more about that in early October at the Capital Markets Day.

Samuel Perry, Credit Suisse

Thanks, guys.

David Bishop, Director of Investor Relations

Next question, please.

Isha Sharma, Stifel

Hi, good afternoon, thank you. I just have one, please. You've mentioned in the past that you would slowly phase out the PT (?) business by growing in other areas, especially Life Sciences. How should we think of the phasing of the remaining \$200m in the next five years? And also, are you happy with quota size in the consolidating and industrial?

Steve Foots, Group Chief Executive

Yes, we haven't said it's going to reduce to nothing, and it won't reduce to nothing. The IS business that's still with Croda is with us because there's lots of moving parts there, and they're in core assets.

Now, in terms of the industrial question. In terms of footprint in three to five years' time, it might be a little bit smaller, but it won't be nothing. It's still an important part, we'll treat it as very much an important part of Croda.

And it's got good margins. A lot, quite a number of products in there are margins that wouldn't disgrace the Consumer Care portfolio. There are some good margins in there. So our job there is to run it and run it in the right way. The point we're trying to make is, with the strategic divestment, it's to allow us to use those funds to invest 100% into Life Sciences and Consumer Care, to turbocharge the growth there.

So we've got these eight growth businesses, and all of them, Jez and myself will look at, they've all got growth in them, and our job is to invest in them in the right way, whether that's people or capex or inorganic growth. And we've got the choice. We won't invest the same in each of the eight, but we'll be investing in them, because they're in growth markets with trends supporting our innovation. And our job then is just to allow them the environment to grow by continued investment.

So, Industrial not shrinking to nothing. Going to moderate, but not a huge amount.

Jez Maiden, Group Finance Director

Yes. Isha, I'd probably add to that just that also in the Industrial Specialities business is the supply agreement.

Steve Foots, Group Chief Executive

Yes.

Jez Maiden, Group Finance Director

So, clearly, the business we've sold to Cargill is bigger than the four sites, four manufacturing sites, that we've sold. So we've also agreed a five-year agreement to supply some other products from other retained Croda sites. So, again, that business we would expect to be reasonably consistent over five years. But clearly, it might drop off completely at the end of that five-year period. It might slow down during that five-year period as Cargill transfers some of that product technology into their own business as well.

So you will have the supply agreement within Industrial Specialities. But, yes, initially it's going to be a business of getting on for 300m of revenue, and we certainly expect the possibility to be low double-digit, just above 10%, probably.

David Bishop, Director of Investor Relations

Thanks, Isha. Next question?

Georgina Fraser, Goldman Sachs

Hi, thanks, David. Two questions left. The first is, you've got the eco surfactant growth CAGR to 2025 of 75%. If you can give an idea of the path, is that linear over the coming years?

And then my second question, it was a really interesting comment that you made, Steve, about Lipid systems not being continuous process, so therefore pricing in Lipid systems is not going to be driven by asset utilisation rate. So, if I think about more batch process chemicals, I've got paints coming to mind, and pricing is usually driven by raw materials. I'm assuming that's not the case in Lipid systems. So, just wondering if you could talk about, therefore, what are the key price drivers in Lipid systems. Thanks.

Steve Foots, Group Chief Executive

Yes. Well, we'll do the Lipid system one first, and I'll bring Jez in on the eco one. Look, the Croda model is about maximising value in front of customers through knowledge, not commercialising the capacity. So it doesn't matter whether it's a continuous process or a batch process, as far as I'm concerned. It's, how much knowledge have we got that we can commercialise?

And what you never want to do is be disconnected with your customer. We want to be in, with Lipids we're in really critical ingredients. A step ahead of where the Actives business is in Personal Care. And the job there is to add great value.

So our customers want the product, they need the product, they're going to make a lot of money out of the products. So our job is to make sure we get a fair value with that as well, and we're not, we're balanced with that.

So the interesting thing in Lipids is, as we see with more and more of these treatments, they're going to be more niche treatments. They'll look particularly in mRNA, they'll need a lot more mRNA in them, relative to the current vaccines. But they'll need bespoke ingredients and delivery systems. And I don't think this is a panacea for a standard number of products here that are going to be commoditised. We don't expect that, and that's why we're investing in it.

So it all chimes to maximising value. And when you start thinking about pounds per gramme, rather than pounds per kilo, you get to a different figure. And the Chief Exec loves pounds per gramme. If we can have more and more of our business on pounds per gramme.

We're not a chemical company. We don't think like a chemical company. We think like an IP company, and we want more and more of our knowledge commercialised, and you just get to better margins. So I wouldn't worry about how we manufacture it. I'm more bothered about the use of the product in application, and how much value we can get from that. And we'll get some interesting numbers.

I think the other thing is, with this capacity that we're putting in, it doesn't change profitability if we're running it at 50% or 40% or 70% in real terms. I mean, obviously the higher, the more profit we'll get. But the overhead issues in there are sort of non-existent for us, because it's small scale. We're not building petrochemical refineries. We're building refinement purification units rather than that.

So, in the end, it's about adding value through pricing power, and valuing your intellectual property correctly. And I think the other thing in Pharma, as well, is, it's not just a product margin. On top of that, there's royalty potential, payments, licensing agreements, profit shares. And that's something we're alert to. It's still early days, but we think some of these pipeline projects, there's no reason why we can't get two margins out of them rather than just one.

Jez Maiden, Group Finance Director

And of course, the Lipid systems, we say it's a batch process, that's like all of Croda's processes. So your other question is about our only continuous plants, which is the bio-EO production. Where we are is, we've obviously transferred all of the existing products onto bio-EO. But the eco piece is really about which of those products are sold under the Bio label, as opposed to just happening to have Bio content that the customer may or may not be currently concerned about.

And that's where that growth should get faster and faster as we go, because of course. It's really about customers launching new products with, using the Bio credentials or re-launching their existing products and substituting their existing petrochemical supply with the Bio feedstock. And then, wanting to make the label claim and therefore requiring the certification promise and so on.

So that clearly is quite slow at first. You have a couple of launch customers, particularly in Home Care, into product areas like Ecover and so forth, and then it's into more rapid acceleration as you get more and more customers to convert.

And, as Steve said, the exciting thing over the last 18 months has been the performance of the Beauty Care business within Consumer Care, which is really where a lot of these products fit, together with Home Care. And that's undoubtedly been driven by both the consumer's move to sustainability and wanting sustainable products, and the customer making their sustainable commitments about moving to Bio-based material, as we see with customers like L'Oréal and Unilever.

So I think that that growth should just accelerate. We're EBITDA positive now. We should be moving to EBIT positive in due course and then really driving the returns through the more volume that we can drive through that plant, because it is our one continuous plant in the whole group.

Georgina Fraser, Goldman Sachs

Great, thank you.

David Bishop, Director of Investor Relations

Thanks, Georgina. We've got two analysts in the queue, so, Chetan and then Martin. And as we're over time, we'll then wrap it up. Chetan?

Steve Foots, Group Chief Executive

Hi, Chetan.

David Bishop, Director of Investor Relations

We can't hear your audio. Apologies.

Chetan Udeshi, JP Morgan

Is this better now?

Steve Foots, Group Chief Executive

Yes, that's better.

Chetan Udeshi, JP Morgan

Okay, hi. I just had one question, maybe for Jez. If I look at the outlook, it suggests maybe the second half EBIT on a continuing operations basis should be closer to £100m, which seems a decent step down from the underlying number ex PTIC somewhere about £250m or so. So I was just wondering if you can give us some sort of bridging items from first half into second half.

And also, sorry, just one more to squeeze in. The capex was a little lighter in first half, at least versus the run rate. Do you think you can catch up all of the, to get to 160m for full year, is that likely now for this year or do we see some of that being pushed out into next year?

Jez Maiden, Group Finance Director

Okay, Chetan, in terms of the bridging items from first to second half year, I guess you've already called out the impact of the divestment, which we estimate, had we done the divestment on the first of January, would have been £39m, so that's to your £250m, as you refer.

I think the other two adjusting items would be the variable remuneration charge benefit that we had in the first half year. That's essentially a function of, we have a lot of share-based schemes across the Group. Most of our employees are share owners and participate in share schemes, so, save as you earn, performance share plans, etc., restricted share plans as well. And every half year we have to mark those to market. There's a number of shares outstanding, we have to mark them to market, and obviously at the year end we were marketing at £100, and at the half year we were marking at £65. So that gave us credit of around about £17m, £18m sterling, which I wouldn't, obviously, anticipate for the second half year, because you've got a one-off benefit in the first half year of £17m, £18m in the first half P&L.

And then the final component is the Lipid stepdown. We did \$90m of Lipids in the first half year. We're expecting \$60m in the second, to take us to \$150m. And that \$30m of Lipids, you can convert to Sterling, and then take a typical Health Care margin, and that will give you a number probably not too far away from £10m sterling as an adjustment.

So those are really the three bridging items between first half and second half performance. And then you've got our normal seasonality, and we typically do around, I think if you look over the last three or four years, typically we've been around 53% first half, 47% the second.

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And that's really a function of holiday timings, particularly in the European business, which mean that second half is always a quieter one for us, because there are fewer working days, I guess, in there.

I think, if you do the maths, then that gives you, clearly, we're not setting a specific expectation. But I think that gives you the modest growth that we expect for the full year.

On capex, yes, it was a bit lighter, but we do have the part-government-funded project starting up in the Lipid expansion, the UK expansion part-funded by the UK government, and the US expansion part-funded by the US government. They'll be kicking off as well. So it's just really phasing of projects. I'd expect us to be at about 150m for the full year, so about 90m to spend in the second half. And that's consistent with our view of 100m as a base to grow the business at organic rates, and to replace existing assets, and then there'll be about 50m from the Health Care programme of 160m over four years. So, yes, about 150m for this year, and about the same, probably, going forward for '23, '24.

David Bishop, Director of Investor Relations

Thank you, Chetan. And the final question, I think, from Martin Evans at HSBC.

Steve Foots, Group Chief Executive

He always gets the final one in, Martin.

Martin Evans, HSBC

I always do. Thanks, David. Thanks, Steve. Just a quick one. I don't want to pre-empt October the 5th with information on Life Science, but there's one of the numbers on slide 28, I think you've mentioned it before as a new opportunity, is this \$300bn biologic drug market. And Steve, you've referred several times to monoclonal antibodies as an area you're working on.

In simple terms, obviously it's a huge market if you were to get a share of it. But from a Croda perspective, is it essentially the same chemistry? Is it the Speciality Excipient delivery systems that fast-tracks absorption of the protein? Is this what you're doing with these customers you're working on these projects with?

Steve Foots, Group Chief Executive

Yes, primarily that fits into it. Yes, it's the continuation of these, we've called them Speciality Excipients with you. There's a lot of Speciality Excipients that are gaining traction. So a lot of that established chemistry. There are one or two new chemistries from Avanti that are coming through as well, that you'll hear about. But in principle it's a continuation of development from where we are.

What you're going to hear, you're going to hear a lot more about that. It's not mono-colonial antibodies, as the Chief Exec sometimes says. You've got to get these words right. And also there's things like nucleic acids, and things like that. So I think you're going to hear a bit more of a new narrative from Croda as we develop the story in Pharma in October.

And also, the central theme there is going to be about, how do we figure all of this out from the individual projects that we've got, in terms of future revenue streams? To try and give some guide to that through the three platforms.

So yes, it's nothing completely different. This is more a continuation of where we are.

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Martin Evans, HSBC

Okay, thanks.

David Bishop, Director of Investor Relations

Thank you, Martin. And thanks for the advertisement. We're hosting an investor seminar on the afternoon of the 5th of October, at the London Stock Exchange and virtually, on our Health Care business. Over to you, Steve, just to wrap up.

Steve Foots, Group Chief Executive

Yes, great. Thanks, everybody. Lots of questions. It's been an excellent first half, where we've demonstrated growth across all aspects of the business, so we're really pleased with where we are. And actually, the business now is in rude health, and certainly for any uncertainties in the future we're much better equipped to deal with that through the sustainability leadership and innovation leadership we've got, and all these eight growth businesses moving in the right direction.

So we'll stop there. Hopefully by October the 5th Sunderland will be top of the championship as well. He's still hoping for that as well, but what's for certain is we'll be there on October the 5th as well. Maybe Sunderland might not be, but we'll see you then. Thank you.

END

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