Transcription

Croda call

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18 November 2020

PRESENTATION

Operator

Welcome to the Croda call. Shortly I will hand over to your host, Steve Foots, Croda's Chief Executive. At the end of the presentation there will be a Q&A session.

Steve, over to you.

Steve Foots

Thank you and morning, everybody. Here I am with Jez and Dave Bishop and we'll spend about 20 minutes going through the presentation and the rationale about Iberchem and F&F and what we really want to do in this space. And also, plenty of time to ask questions along the way. So, I'm going to try and rattle through the slide pack with Jez and then please build your questions up and then, as I said, we'll take them afterwards.

So, putting this in context on slide six. Part of the grand plan is to move Croda to more of a pure play consumer ingredients business. Central to that is expanding our life science business and you see with our Avanti acquisition and the connections with Pfizer that we're well on track there. But we don't need a huge amount of capital in that business to get to an exciting place. We think there's a lot of excellent growth potential in the business. So, our minds have been turning to how do we strengthen the Personal Care arena? And this has been four years in the making, getting into F&F and I'll come back to that as we go through the presentation.

If you look at slide six, everybody knows we've been in Personal Care for many years, we've been looking to strengthen around Personal Care and we've decided to enter the F&F market. We had this as a strategic target for about four years now and everybody knows fragrances are currently critically important ingredients for our customers but we think there's an opportunity in the mid-sized level to leverage our positions both in Personal Care and Home Care with the fragrance positions of Iberchem.

The global SMS market is 59 billion dollars by 2024 and is growing about 5 to 6%. This business is growing at twice that because of its service position and its unique business model which I'll come onto, but they're very well exposed to emerging markets; Latin America, Asia Pacific, Middle East, Africa, and they're all core markets for Iberchem. So, it's a high growth segment, we don't want to be big in fragrance and flavours for the sake of it, we want to be big enough for what we want to do with the business to get the synergies in the small and medium size customer space.

Slide seven just takes you to a bit more of the strategic and financial rationale. We've known Iberchem and its management team for a number of years, four years, we tried to buy them four years ago and we just weren't ready from our side. And then we've looked since then in the F&F space and we got close to acquiring something else slightly smaller than that about two years ago. And again, we didn't feel it was appropriate, so we walked away.

So, we've been patient to look for the right the right thing, and we think this is the perfect model for Croda. If we could imagine ourselves as an F&F player that's been in the business for ten, 15, 20 years, this is the company that is Croda.

So, we see this as a Croda of F&F, its fast, its agile, its responsive, its entrepreneurial. A third of the people in sales, marketing and research, thousands of products, thousands of customers. They manage complexity very well and it's a very capital light model. Much, much less capital / more capital light than ours. And their top 10 customers represent about 20% of sales, so similar to ours, which is about 16% of sales.

In terms of R&D, which is a central part of their business model, they've got 25% of their people in R&D and they've got this huge hamster wheel of innovation that churning out 4,000 references per annum. And a very distinctive model, which I'll come back to. It's EPS accretive in year one and strongly accretive thereafter. And then let me pass to Jez who can take you through the transaction details. Jez over to you.

Jez Maiden

Okay, thanks, Steve. Good morning everybody. So, looking at slide eight we've agreed to pay a total consideration of 820 million euros, around 736 million sterling. We're acquiring the business on a debt and cash free basis. This represents an EBITDA multiple of about 20.5 times. We'll fund the acquisition by drawing about 136 million of debt from our existing facilities and by the equity placing of new ordinary shares, which is expected to raise net proceeds of 600 million pounds, about 8% of Croda's issued share capital which is underway today via an accelerated book build.

On completion, our leverage is expected to tick up modestly to about two times EBITDA. So, the equity placing will help to preserve the group's robust financial position and balance sheet strength which has been important for us historically, and also through the current COVID year. Croda generates a strong cash flow and we would expect to de-lever quickly back to about 1.6 times by the end of 2021.

Commenting briefly on our current trading, this is Croda's trading, our performance has continued in line with expectations that we set out at the half year results in July and the group's trading outlook for the full year is unchanged. Personal Care and performance technology sectors have both seen constant currency sales about 5% lower year on year in the first four months of the second half of the financial year, so that's July to October. This is significantly better than the Q2 performance where we were down nearly 20% in each of the sectors. With every month we've seen improvement in trend, and we expect to be around flat year on year as we progress through the fourth quarter.

Life Sciences is pretty independent of both the macro and the COVID issues. In fact, as we announced last week, it's starting to see some benefit from COVID related contracts. Constant currency sales in Life Sciences are ahead double digit percentage, and that excludes the impact of the recent Avanti acquisition. So, great performance from Life Sciences.

Turning back to Iberchem we're buying the business from Eurazeo, the French private equity house, which has owned the business since 2017 and from its management. We hope to complete the transaction before the end of this year. Going forward we'll operate Iberchem as a semi-independent entity led by its own management team, its existing management team and it will sit within a newly formed Consumer Care sector alongside our existing Personal Care business and the Home Care business which is currently reported in performance technologies.

We'll be providing extensive support, particularly in the areas of opportunity, in Sales and in R&D. This is very much in line with the model that we successfully use with the Sederma acquisition way back in 1997 and how we're managing the Avanti acquisition this year. Steve, back to you.

Steve Foots

Thanks Jez, so just clicking over to slide ten then. Just picking up some of the numbers, they've been in existence for 35 years, management were there at the start and still there now and they will stay on with us as well, which is really good. As I said, 850 employees, 14 manufacturing facilities in the right countries, in the fast growth countries, and ten R&D centres and very much decent realised again in these fast growing areas.

They have a commercial presence in 120 countries, so you're very much a mini Croda with good reach around the world. 83% of the sales in emerging markets. Territories where we want to be stronger with 25% of sales in China. They are actually bigger than we are in China and consumer markets. And we're very happy with our growth so we think it's a great growth platform there just thinking about that country alone, they've got manufacturing R&D on the ground.

So, Iberchem has 3,600 customers and we have 5,900 customers. If I just look at Croda's customers in this space, virtually all of them will be buying fragrances and hardly any of them are buying Iberchem's fragrances, so we see a great opportunity there. And vice versa too actually, Iberchem, there's a lot of opportunities to sell Croda's consumer ingredients into them as well.

And just to try and bring to life the business model, which is not on there on the slide, we see this as the Croda of F&F, we haven't seen anything better. We also see it as the Zara of F&F so haute couture in retail, you go down the Paris catwalk and you buy expensive clothes, the Zara model is you replicate that at great value and you personalise that for individuals and you feel like you're getting something unique. That's their model in fragrance and flavours it's a very clever model and it's a contrarian model to everybody else's and that's what we like about it.

So, it's a model that's built on. If you wanted a Chanel No.5 fragrance with a twist, they'll give you it and they'll give you an exclusivity and can move very quickly. So, it's a very personalised, very intimate model, and if you look at that 80% of their sales are in fragrances and 20% are in flavours so we like that it's got a very, very deep product range and very broad product range as well.

Slide 11 if you just turn over. It brings out that 4,000 new fragrances and flavours every year, so it's a very fast innovation wheel as we call it and it's targeting formulation churn in the industry at the small and medium sized customers. As a reminder to you all, as you do know 75% of Croda's business is in the small and regional and local customers and our view of the world post-COVID is, barriers to entry and Personal Care, particularly for small customers to get on the market, is going to increase, sorry is going to reduce. So, you're going to get more customers coming on the market, small, medium size, indie type customers. Theirs is the perfect model to capture in there. We're unlikely and we won't take them to the big multinationals. That model is a different model, and the big players do that very well. This is to target small and medium size players so a very good fit for us in that respect.

I think the other thing is we've had a good look as a Board and as an Executive Committee is sustainability, we've got a big sustainability leadership position and safe to say they're behind us, but we see a very good clear road map to get them to somewhere near where we are. They are not back integrated into the supply chains for raw chemical so they can buy whatever raw chemicals they need. It's not part of their model, they'll just buy from whoever they need to. There's two raw materials in there that the buying now that we think we can convert them to bio-based materials and that will transform their business up to about 50% bio-based nature, which is not far from Croda's model.

So, the biggest carbon in their business is scope three rather than scope one and two. Scope one and two it's a tiny footprint, so in absolute carbon terms it's much less exposure than our business, but of course scope three at the moment because it's linked down into petrochemicals, that's the iceberg underneath the water is the big scope three emissions, they've got work to do that but the neat change there is to move two or three of their raw material ingredients and we think we can do that pretty well.

Slide 12. If you just look at slide 12, it's more about alignment to the Croda way. I mean, they're very much like us. I rattled off a few things about the Croda of F&F. They mirror us very well, just a smaller version of Croda but they have a deep root in clever science R&D and this agility and entrepreneurial spirit is very visible and they've invested heavily in the right parts of their business, in the research labs, in sales and marketing, and it's a Ferrari speed. If you're at the traffic lights they're in their fast car versus their rivals in tier two in the slower car. They really get to market extremely quickly and there probably quicker than Croda and we've probably got some learning to do from them.

And if you throw all of that in output terms, if you look at slide 13, you will see that their financial performance has been outstanding over the last ten years. It's a very resilient model. Compound growth and revenues up 15% and profits, which is more of what we look for in Croda, up 20%. Whilst they are growing very quickly and they're doubling the number of people they've got, they're still driving very good profit growth, which is what we like and it's a sign of a good management team as well because normally you can reduce your profitability for two or three years as you grow your business.

And it's a very young team, the average age in the business is about 35 to 37, which is a reflection of the growth in the business. It's very much a growth business and you've got a lot of dynamism and energy in there. And this year they will probably do about 40 million euro of EBITDA against 34 million of EBITDA last year, so in the harshest of trading environments they are growing their business well in profits as well as turnover. So, from Croda's point of view we look at that and say fair play to them, that's a sign of a very good business.

EBITDA margins are around 20% and very strong cash generation. We would expect as we get into it with the combination of the Croda model that those margins can start to climb more than that and then we will come back and update you on how we're thinking about that next year as we get into it. But overall a great exposure to emerging markets and great business model which is very different to what you think and very different to the market. So, that's one of the major reasons that attracted us to that.

Slide 14 really shows you the second driver of why we're interested and that's their global reach. As I've said over a third of their sales are in Asia, mainly in China, which is what we like. Asia will be the fastest growing area for Croda going forward, and I'm sure it will be for Iberchem too. Followed by Africa and Middle East and together with Latin America, as I said, 83% of sales in these markets.

So, over the years they've developed 14 manufacturing facilities close to home, so they've got big operations in China, Indonesia and Thailand as well as South Africa and Tunisia and in Latin America, it's Mexico and Colombia. And where they're not is quite interesting as well, they're not in America, they're not in France, they're not in Germany, Poland, they're not in India or Brazil. And we think there's an opportunity with the Croda brand there. We have manufacturing facilities on the ground there and a great opportunity for us to point them through our supply chains and go to market approach with our country selling teams to get them into some of those markets.

So, for example, if we wanted to get into Brazil with them, it'll probably cost us £3,000,000 to put a fragrance unit in our Campinas site there and we could probably get on the market in six months. So, it's a different speed to their operations and what we're used to, so we quite like that as well. So, our job really is to point them into some of the countries that they haven't been pointed into as well.

Slide 15 is the third driver. It's their customer centricity. We really like the model, and we get the model. Really clever as I said. I think the major points on that slide is the top ten customers represent 20% of sales and I think the other thing which we think is impressive is that they're expanding their customer base, so they've got 1000 new customers in the business in the last three years, they have 3600 now. So they're not only growing with existing customers, they are growing with new customers as well and we think with Croda's digital capabilities in omni-channels that we've been developing over the last two or three years, we can definitely take them to a bigger audience in a much shorter space of time, so we are well ahead of them in digital, so obvious opportunities there for us and the group.

Turning to slide 16. And finally, the fourth areas that's interested us is this R&D, whether by whether we're buying Sederma, Avanti or this, the same principles are in play. We want something that's either got great business model, unusual, great technologies but an innovation philosophy that's the best in the industry and they've got a powerful innovation model. So, they are launching 280 new fragrances each month and 70 flavours each month. So, this is a busy business and there's a lot of moving parts to it but it's very defensive in that respect as well, so you all of that chimes back to this is the Croda of F&F as far as we're concerned. So, let me stop there and Jez is going to take you through the combination benefits. So, Jez, back to you.

Jez Maiden

Okay, thank you Steve. Slide 18. So, we've gone through the financial performance, which is outlined at the top of this slide. In 2019 a very strong year, 2020 as Steve said, you can see the resilience of the model still growing despite impacts of COVID on the performance.

So, at the bottom of the slide, really building on the organic growth story that Steve has outlined, we believe the acquisition can deliver significant revenue synergies on top, which we expect to be at least 25 million euros of revenue by year three, growing to nearly 50 million of annual revenue by year five.

And if I work across these, I'll actually work from right to left, beginning with box number three, you can see the three key areas of revenue synergy. In number three we have the cross-selling of Croda's expertise to Iberchem's 3,000 fragrance customers, with a particular focus on their exposure to high growth emerging markets.

In the centre, number two, you have the cross-selling of the Iberchem fragrances into Croda's near 6,000 customers in Personal Care and Home Care, particularly in the more mature markets in parts of Europe and particularly North America where Iberchem currently doesn't have a presence.

And finally, on the left hand side, number one, is the creation of a one-stop shop to provide Personal Care and Home Care customers with a full service formulation offer. This is very interesting for us because we have seen a number of mid-sized and smaller and particularly indie [ph 00:19:10] customers come to us not just for magic ingredients but also for help to formulate because they don't necessarily have the in-house formulation expertise of the larger customers, but to help them formulate their products, their shampoos, their body products, etc. And one of the parts that we've been missing in that story has been the ability to bring in an on-trend fragrance which is stable in formulation.

And slide 19 gives you a bit of a feel for that. This is an example based on a shampoo formulation where you can see Croda delivering five or six ingredients in green which are delivering performance and formulation benefits. We're not interested in operating in the ones in the black type because they are the more commodity commoditised part of the chassis formulation. But the part we are interested in doing is then being able to have a fragrance, which Iberchem will bring which will, which will be the right fragrance for the product and also stable in the formulation. So, we think that that's a big opportunity.

Also, in the bottom right hand corner, Steve's point around we also believe that we can help Iberchem move further into sustainables, into natural raw materials, replacing more of petrochems within the supply chain. So, that's a very exciting area for us to look at. But the big revenue synergies that we've modelled here are really built on slide 20. They are the cross selling opportunities. It really is a perfect fit geographically between Croda and Iberchem.

So, Iberchem is strong in the areas that Croda has historically been less well represented. Certain countries within Asia and also the Middle East and Africa. So, the blue areas on this map. Equally well, the green areas are the areas that Croda has traditionally been strong, Europe and North America in particular, where Iberchem does not have much of a footprint, so again, a very strong fit there. And finally, in the purple areas, the areas where both companies have presence, but where we have probably a larger exposure to multinationals, we can open up a lot more of the smaller and middle sized customers in the years to come.

So, that's the revenue synergies. Finishing for me, before I hand back to Steve, on slide 21, just to show you how we're going to report this going forward. So, the new Consumer Care sector from the beginning of 2021 reporting will comprise the three existing Personal Care businesses: beauty actives, beauty effects and beauty formulation. It will include our fast growing Home Care business which currently sits within performance technologies and we will add the fragrances arm as well, the Iberchem arm, to that reporting of Consumer Care. That will mean Consumer Care will sit alongside the other two core business sectors: Life Sciences, where we have clearly been deploying more capital recently, and performance technologies.

So, we'll give you more details, including comparators on how that will look. So, 2020 will report under the old structure and then we'll give you comparators for the new structure when we have our results in February. Steve, back to you.

Steve Foots

Thanks, Jez. So, in summary, in Slide 22. We think there's an obvious strategic and financial logic for it. Very compelling indeed for us. F&F is something we've watched with interest over the last four years and we think we've definitely found the right business model in the right company.

So, the business in many ways is a small and mirror image of Croda. Lots of innovation, tonnes of customer intimacy and a great innovation wheel that drives their business. So, the combination will make us stronger in the Consumer Care arena. So, let me stop there and let's take your questions.

Q&A

Operator

Thank you. Ladies and gentlemen, if you do have a question for the speaker, please press 01 on your telephone keypad and you will enter a queue. After you are announced, please ask your question. And our first question comes from the line of Gunther Zechman of Bernstein. Please go ahead.

Gunther Zechman

Good morning, Steve. Good morning, Jez. Can I kick off with two questions please? One is just a short one. You mentioned the deal will reach Croda's cost of capital by year five. Could you share with us what Croda's cost of capital is at the moment? What you use in your calculation? So, that's the first one.

And the second one is when I think about what you say on the one-stop shop strategy, there's still a number of ingredients that fit the bill for high tech, thinking of enzymes for example, but there could be others as well, which you currently don't have. So, should we expect more M&A to come to complete some gaps in the portfolio that Croda still has in their Personal Care and Home Care space?

Steve Foots

Yeah thanks, Gunther, morning to you. Jez, do you want to do the cost of capital and I'll answer the other one?

Jez Maiden

Yes, hi, Gunther. We'd use about 6% post-tax as our current cost of capital. I would be hopeful that we will exceed that in less than five years, but what we're very focused on is that in year one we want to add whatever additional resource and its more resource than capital to enable us to really deliver the revenue synergies then rolling out over years two, three, four. So, we're making a bit more of a resource investment upfront, and as Steve said there might be some very modest CapEx into certain countries. So, overall, yes, certainly by year five and I would expect before that. But of course, we are earnings enhancing in the first full year, significantly cash generative as well and then we will be delivering the improving capital returns over time.

Steve Foots

Thanks, Jez, and to your other point Gunther. No, we don't believe things like enzymes and things will be would be part of our thinking. We're looking at the formulation in Personal Care and in a typical formulation Croda will be supplying four ingredients, maybe five ingredients, back to one of Jez's slides. And the fragrance in there could be one fragrance. It could be two fragrances in there. So, that was always the gap. So, we potentially – the rest of the Personal Care formulation is largely quite volume driven, more undifferentiated materials, basic surfactant and the like.

So, we have our mind on that. We think this completes the gap. Anything else would be looking at in this Consumer Care area would be around the Sederma area, the skin actives end, to look at to consolidate there but no plans for that at the moment. So, our priority now is obviously growing Life Sciences in the fast way which we expect and also making sure that we fast grow this new consumer sector with Iberchem centrally involved in it.

Gunther Zechman

Thank you.

Operator

Our next question comes from the line of Thomas Wrigglesworth of Citi. Please go ahead.

Thomas Wrigglesworth

Good morning, gents, thanks for the opportunity to ask questions. Two from me. Steve, you made mention that you looked at this four years ago and you didn't pull the trigger then. Can you help elaborate as to what's changed on the Croda side? I mean the contiguous nature of this business with your Personal Care business has been evident I would have said for decades. That's my first question.

And then second, it's really about the competition for capital in the business. If we look forward five years from now after you've done the kind of the internal synergies, will you add through M&A to the fragrance business? Will it be a stand alone? Do you see it being a stand-alone division within the quota portfolio? Can you explain a little bit more about the inorganic ambitions that you might have around growing this business going forward?

Steve Foots

Yeah, a few questions there. I mean yeah, so we've known it for four years. We do our strategic reviews every year and we're always looking at markets and potential adjacencies and this was one that came out about five or six years ago, so we've had our minds on it for a while. This came up but we weren't ready for it from our side and we were just really learning about F&F in our own way and we look at that in different ways to probably what other people look at as well. We're looking at a slightly different business model and the innovation approach.

And as I said, so it was passed from our side rather than from their side. But I think the good thing and the reassuring thing is we've always kept in close touch with them for four years and actually through that period we've collaborated on a number of projects with them as well. So, we can see them in practise, we can see how they operate and also through that period as well, we've collaborated with lot of the tier one players as well on bipartite, tripartite customer projects as well and we can see the differences as well in all of those and also with other tier twos.

So, over the last few years we've got ourselves comfortable and familiar with the different types of business models there, and when this came available again we moved pretty quickly. In terms of the integration, Jez describes it similar to Sederma and Avanti, which is right, but what we mustn't do is slow down the speed of their innovation. And they're faster than probably we are. So, we want to keep their Spanish team intact, because that's where the brains are behind the model and the innovation will and similar in China too.

But what we will be doing is heavily focused on country integration. Country integration in all of the big overlapping countries where the Croda model will be applied with support from their model to get into markets. So, virtually all its energies are with customers, in front of customers, so we will be using our digital platforms, we will be using our R&D ad there R&D together, we'll be joining them up in our sales network in one sales office rather than two. It will be sharing warehouses and getting their product to the point of as close to customers as we can. So, all of that will be part of it and then that's part of our thinking.

And just remind me of the other questions because there's another question I think you had?

Thomas Wrigglesworth

Yeah, just the longer term ambition, do you think we would see in five, ten years Consumer Care would split out and we would have a standalone fragrance division? I know it would obviously be - will be integrated with Personal Care.

Steve Foots

Yeah, well, we'll see. That's not part of our plan now and this is sort of part of a three-pronged plan to expand Life Sciences, strengthen Consumer Care and then refine performance technologies. Of course, we're not talking to you about that today, but it's moving Croda more and more to Life Sciences and consumer ingredients and reducing our industrial exposure, although there's still quite a lot of good industrial businesses that we're involved in.

So, I think at the moment, no, but I think you should be looking at the Consumer Care business with a slightly different growth trajectory when you combine it all together and we think the combination of those three businesses effectively, this is the three Personal Care businesses, we've got a very good – it's a small business but we've got a very good Home Care business which will grow. There's a lot of good innovation in there and then the F&F business, which serves them both, which for the next three to five years will be in the same business sector.

So, no plans to expand further into F&F, we don't feel we need to. We certainly - we're very impressed with the tier one players but we don't want to be a tier one player. We don't want to be back integrated to raw chemicals and we don't need to be that big. We just were here to serve our small and medium sized customers and we think that combination will be very powerful for us. So, don't read anymore into it than that. We think now it's all about integration and fast growth there.

Thomas Wrigglesworth

Thanks very much.

Operator

Our next question comes from the line of Andrew Stott at UBS. Please go ahead.

Andrew Stott

Yeah morning Steve, morning Jez as well. A few questions if I can. So, the first one was on the organic growth track record, it's 15% on the slides for ten years, but is that organic because I see in the notes there's a couple of acquisitions mentioned so just wondered if you had the underlying number there, please?

Second question was about profitability. Steve, you have been on record in the past in saying that the F&F industry has an issue with profitability, as in there's a cap, there's a limit to what they can do, and I guess broadly that's low 20s versus low 30s for a lot of Croda's assets. So, do you still stand by that with regards to this particular transaction? Should we think about this as predominantly a revenue story and not a profitability story? That's key to me to understand.

And sorry I've got a third, if I can. The financing, I've had feedback already this morning that there's a surprise at the amount of equity involved. I share that view. I think 2.7 times pro forma would be very comfortable for a business model like Croda so the only interpretation I can put on that is that there's more acquisitions to come across the group and so you want to keep your powder dry, is that the right conclusion?

Steve Foots

Yeah, we'll take them in turn. You're right, so it's a track record of 15% growth. There are some small acquisitions in there, if you split those out, the true run rate in the growth is about 10 to 12% organic across the cycle. Quite consistent year on year there, so that's that.

And I think the way that – The fragrance model is a very, very good model, it's different to ours at the big players and we understand that, and they leverage that for what they need. So, sales growth tends to equal cost growth, equals profit growth. I think in here it's slightly different but it's more skewed to that. So, there's still a bigger revenue growth story but we would expect the EBITDA margins to climb from 20% given that we are fronting up to small and medium sized customers and a lot of those customers we are the R&D partner rather than just the ingredient suppliers.

So, we get a management fee out of that work. We don't charge them for that. We bolt it into the pricing of the product. So, there's a bit of a margin improvement story there, and we've got our thoughts on what would be, but we will probably share that with you early next year. So, there's definitely a fast revenue growth story there, but certainly margin improvements. Can we get into 30%? Who knows, but certainly 25% is something in the short term that we think we could do. In terms of the finance, I'll let Jez talk about – well Jez, why don't you talk about that now.

Jez Maiden

Yes, sure. Morning, Andrew. In terms of equity, look, I think having a strong balance sheet is important to Croda. Clearly as you indicate, it does give some capability to continue to look at M&A opportunities given that we don't need to invest too much organically in either our existing business or the newly acquired business.

But I think coming into the COVID period the fact that we had a strong balance sheet and that we had plenty of headroom from refinancing the facilities last year was important in both taking the market’s mind off of worries about Croda and indeed management’s mind off of it, so that we could focus on the expansion, particularly with the Avanti acquisition and then this acquisition. So, we've been able to get on and focus things. So, I think for the Board keeping a strong balance sheet is very important.

You can always argue about where the right level to be is. It's maybe two and a half times in more stable market conditions, and maybe it's nearer two in the current market, but I think that's why we want to do it. Now, we did the Avanti acquisition from debt, so we increase the leverage there up to about 1.8 times and this will take us up to around about two times at the year end.

I think going forward we would like to deploy capital in both Consumer Care and in Life Sciences. I think acquisitions will come through as we've seen this year. Generally, our target area is more typically 100 to 200 million as we spent on Incotec and on Avanti. I think that you're not going to come back and raise equity frequently from the market, it's a very long time since Croda did it, and therefore taking the opportunity to have the right balance sheet and still creating the freedoms both for uncertain conditions and for future expansion opportunities is the right place for us to be. So, we think this is the right thing to do.

Andrew Stott

Sorry, last one. Will you keep the flavours businesses 20% of it is flavours? It doesn't really fit into what you just said. Will you keep that?

Steve Foots

Yeah I think that's something that we look at. It's an obvious area for us to have a good think about, but it's something that we will keep for the moment because it's growing very quickly and then we will review that once we get into the business. But we won't make any decisions on that just yet. But yeah the priority is integrating fragrances into the Croda model, of course.

The other thing I would say, Andrew, is we’ve lived through five recessions and each time we've come out of that there seems to be a few more opportunities on the M&A side that have surfaced that we've either been surprised with or not expected because of the changing nature; families trying to sell because they had to and similarly businesses, other businesses, smaller businesses come into the market. So, they're all in the small end, much smaller and typical end for Croda and as Jez said, it's just creating a bit of head room just in case they come along. They may not, but that's why the nature of the equity debt split is what it is.

Andrew Stott

Perfect. Thanks, Steve. Thanks, Jez.

Operator

Our next question comes from the line of Matthew Yates of Bank of America. Please go ahead.

Matthew Yates

Hey good morning everyone. The first question is do you have any insight or are you able to share why the PE Fund is selling? I mean it looks like they've doubled their money since buying it in 2017, but just interested why they wanted to exit now.

The second question is to go back to something that you said a few times on this call about not competing head on with the big fragrance companies and I'm conscious Givaudan probably has 20 times the size of revenue that you will. Can you just elaborate a little bit more on that? Why this product offering and why this route to market is so different than what the big fragrance houses are doing and why ultimately you wouldn't be competing with them?

Steve Foots

Yeah, fine. PE Fund is straight forward. They're the third owners in the last 12 years. They're all in for about four, five years, some of them, some of them get out in the fourth year, some of them get out in the fifth year. And by the way, they've all they've all made a lot of money from the Fund because the business continues to grow at pace. So, their reason really is that they are starting a new fund, and this is one of the best performers, so it's a good chance to crystallise that now and then rotate out and then use the money to rotate into other businesses. So, it's as simple as that.

The management are very influential there. They own 30% of it so they had a big say in why it came to Croda. We think we were the underbidder by some way as well because we don't have big cost synergies like the big players. And that's great because from a management point of view, their business model would be remain intact with us, but it wouldn't if one of the F&F players were buying it.

I think on the competition front, it's straight forward. We're not here just to buy tier two just for the sake of it. We want to buy uniqueness and something different and their business model, I have tried to describe it like a Croda of F&F but more like a Zara of the retail industry. It absolutely is a clever model and they're not really competing.

They don't compete really with the big players. They're competing with other regional tier two players. And they get their business because of their fleet of foot and their speed, amongst other things, behind the business model. It's very much speed to market and we've always said this now with Croda's business in Personal Care, we've got to be quicker and more responsive to market.

So, this will speed up as well. So, don't expect that growth to be jeopardised in the future because of that. If anything, our job is to try and accelerate that growth as we have tried to outline to you.

Matthew Yates

And if I can just ask for more on the cross-selling opportunity here, the 25 or 50 million number you've come up with. Can you say how much of that would be Croda selling more into emerging markets versus Iberchem selling more into your developed markets? How does that sort of split and breakdown look?

Steve Foots

Jez, do you want to take that?

Jez Maiden

Yeah. So, hi, Matthew. The majority of the revenue synergies are related to the cross-selling partly because the formulation model obviously needs to still be developed further and improved but we know there's a lot of interest in it. So, I think the cross-selling would be both ways, but we've particularly seen in countries like China, that we're really just scratching the surface in terms of our exposure to Chinese consumers, so I think the opportunity to take Croda's ingredients into Iberchem' s strong Chinese position will just open up a number of new customers. So, I think you've got cross-selling both ways, probably relatively equal, but certainly the opportunity to take Croda ingredients to Iberchem' s customers in these markets is very exciting indeed.

Matthew Yates

Very good. Thank you, everyone.

Operator

Our next question comes from the line of Laurence Alexander of Jefferies. Please go ahead.

Laurence Alexander

Hello, can you speak a little bit about the comments around sustainability? The fact that they were lagging yours, is that due to them being more directly responsive to what their customers wanted, and the customers were not pulling them in that direction, or was there a difference in skill sets that you will be helping them with in terms of a shift to renewable inputs?

Steve Foots

Yeah, thanks, Laurence. It's the latter point you make that we take a very strong, proactive, sustainability leadership position and hopefully you've seen that play out about the depth and breadth of about leadership and our content in their recent Capital Markets Day. So, that's not in their mind as much as it is in our mind. So, of course, one of the big things from a Board point of view is where is this business going to be from a sustainability lens over the next five years? And how can we have a clear road map to get them to where we want to get to?

And it's pretty simple. Scope one and two is fine as I mentioned in the in the slide pack. Scope three is where the problem is because like all fragrance companies, they're all back integrated to largely petrochemicals, so petrochemicals in scope three is a big burden. So, how do you reduce your scope three emissions?

So, in this way, because they're not back integrated to aroma chemicals, they can swap in and out, and there's a lot of work going on by the fragrance companies but also by a lot of the biotechnology companies to move away from aroma chemicals, traditional aroma chemicals, into more biotechnology based aroma chemicals.

So, that work is moving very speedily behind the scenes so we're on top of that. A lot of the chemistry they are using - glycol-chemistry, triacetin chemistry - is something that we know very well in all the chemicals. So, we think moving two of their raw materials into naturals over the next few years will transform their bio-based nature of the product. So, it's more our skillset that will take them there and they should benefit significantly for that, particularly if we take them into some of the Western markets as well, like France, Germany, places like America and the like where you need a strong sustainability story.

Laurence Alexander

Then can you speak a little bit to the demographics of the key staff? The perfumers and the flavourers and how easy will it be to replicate or scale their skillsets?

Steve Foots

Yeah, so they've got 850 people. They've got a very young business, which is great, we like that, 35 to 37 and they're training and developing them all the time. They've got 22 perfumers, so they don't have one or two. They've got a deep bench there and they've got eight or nine Flavourists. They're key people, but of course the other key people in this business are the Head of R&D, the Head of China. They have a strong finance number two and the Head of the two sectors.

So, we've spent a lot of time in our diligence looking at the depth and the strength of their bench, so to speak, with the people and we're very pleased. So, we've got a warm and comfortable feeling with that and, of course, with Croda being a PLC we can then offer them 'save as you earn' share options and also incentive programmes that got a bit deeper than theirs at the moment to try and credit the many rather than the few in their business, and that's what we try and do. We've done that with Avanti and Sederma over the years as well too.

Laurence Alexander

Wonderful. Thank you.

Operator

Okay, it's now 8:46. Do you wish to continue taking questions?

Steve Foots

Well, if there are any, yes. If there aren't, we can stop there. So, perhaps ask everybody again.

Jez Maiden

We're happy to continue, Jerry, for a while.

Operator

Thank you very much. In that case our next question comes from the line of Chetan Udeshi of JPMorgan. Please go ahead.

Chetan Udeshi

Hi, A couple of questions from my side. The EBIDTA progression from 2015 to 2018 and there was a step up then in '19 and '20, so can you share any thoughts on what happened in that period from 2015 to 2018 because clearly there doesn't seem to be as much earnings growth during that time frame?

And the second question was, your point about the geographical exposure being different between Croda and Iberchem. Do you think - is that at least partly because of structural differences in terms of customer sets? Maybe the products of Iberchem are more suited to smaller customers rather than maybe for Croda, where the ingredients are most suited to bigger customers. So, from that perspective, how easy it is to think about costs, revenue synergies? Thank you.

Steve Foots

All right, yeah, I think I caught the first part, but it was breaking up, but I think you're talking about earnings inconsistencies between '15 and '18. I think part of that was where they all had the Citral crisis with the Citral allocations and availability. So, I think they were impacted there but again, their earning went forward so they still managed to grow the bottom line, but that's the only thing that we could point to with that.

I think your point on geography and exposure, I think there were two questions in there if I'm if I'm reading you right, but the whole point of this is to get them - in emerging markets is to leverage their strength and our strengths together and we think we can do that. We don't think – there's a little bit probably in the Middle East and Africa where they sell into fine fragrances, which we wouldn't sell too much of our ingredients in, but that's a relatively small amount of their business, but everything else we would expect to get good crossover with them.

The 6,000 customers from Croda in the 3,500 customers from them is a great opportunity when you've got the best part of 9,500 customers, many of which we can cross sell. We think there's opportunities there. So, there's no obvious issues there. And don't forget Croda supplies 75% of our business. We're supplying to small and medium sized customers.

So, if you look at China, they're growing at a terrific rate in China and we are growing at a very good rate. So, hard to believe - and we're were both in tiny market shares in China, really, so hard to believe we can't continue that growth going forward. So, we're really pleased. I think the question will come when we take them into new geographies, how we position their products. We won't take all of their products there, but we will take some of the products there. But other than that, there's nothing behind that that we're overly worried about.

Chetan Udeshi

Understood. Thank you.

Operator

Our next question comes on the line of Sebastian Bray of Berenberg Bank. Please go ahead.

Sebastian Bray

Good morning and thank you for taking my questions. I just have three please. The first is on the margin difference between fragrances and flavours. Is removing flavours potentially an easy win when it comes to raising margins in this business? Is there a significant difference between the two?

My second is on raw material replacement. Steve, you mentioned earlier that there were two raw materials especially that could be substituted out with naturals. Could you please share what these are?

And my third is an accounting question. What is the value of intangible assets and PPE of the acquired asset and are there any indications of what the goodwill might be? Thank you.

Steve Foots

Well, let me do the raw material. I'll let Jez do the accounting and margin. Yeah, on the raw materials they are glycol based by and large, which is - glycol chemistry is something we use very regularly so we're up to speed with the development and technology there. And we also use triacetin and half of that molecule is glycerine anyway, which is natural, and you can make that naturally and we do actually ourselves and make that naturally. So, they're the main raw materials. There's nothing nasty about the chemistry, and we know the chemistry well. So, that's the reason that we were making those statements. Jez, do you want to do the accounting and the margins?

Jez Maiden

Yeah, sure. Hi, Sebastian. No significant material differences in the margins between the two parts of the business there. In terms of intangibles, well we will still have to work that out for the first purchase accounting for the end of the year, if we manage to complete, as we hope, this side of year end. Clearly the asset value is relatively low in terms of tangible assets, so most of the acquisition value is going to be in either intangibles, customer contracts, et cetera, or in goodwill. But we'll come back to that either for February, if we've completed this side of the balance sheet date, or in 2021.

Sebastian Bray

That's helpful. Thank you for taking my questions.

Operator

Our next question comes from the line of Isha Sharma of Stifel. Please go ahead.

Isha Sharma

Hi. Good morning. Thank you for taking my questions. First one would be is it fair to say that Corda is now more focused on growth when we look at your recent acquisitions? Are you still guiding for Personal Care and Life Sciences to be of similar size in the mid-term or should we think a bit differently now?

Secondly, traditionally you have always focused on cost management in order to improve profitability of your acquisitions. Is there scope to do the same here?

And the last one maybe on competition. Given that tier one players have always talked about penetrating the local and regional customers, are you going to be their direct competitors, at least in some areas and geographies, or is the strategy so different that it's like different pockets? That would be great if you give some colour on that.

Steve Foots

Yeah, just take them in turn reverse so I can remember them. Competition wise, it's what we said before. I don't think - we don't see a big competitor base from the tier ones in this area. It's all these local players and there are quite few local players in F&F but as I said, we think this business model stands out for being the differentiator in there. So, we always expect competition, but we think with Croda it's much a more powerful combination.

Management, I think I mentioned earlier as well on integration, their management are great, their philosophy is great. Of course, leaving them alone is not part of our plans, but what we will do is just keep that Spanish management intact and we'll embed a number of Croda people in there, so we're building the learning in the Croda organisation in that team and vice versa, we'll probably bring some of their team out into Croda. But our job will be to really get the countries working well together because they've got some great people as well.

So, I think the big win here will be in the combined selling forces, the marketing teams, the supply chains in country, for the country, working much better together. And have one face to the customer, so when we talk about formulation development, then we're talking about a significant part of the formulation now, not just the specialty ingredients. So, all of that is trying to get good integration there, so it's a light integration, we would say, but it's very, very much pointed towards - the focus will be pointed towards the country.

And in terms of your overarching strategy, there's no change here. The Life Sciences business will be the biggest business in Croda, I have no doubt, and that's part of my plan and the Avanti acquisition is an outstanding opportunity for us, but we don't need a huge amount of capital in that business. We're spending about £30 million on scaling up the lipid nanoparticles and other technologies. We've probably spent 15 million this year and 15 million early next year.

So, we're scaling up in the UK and North America, and then you've seen with the Pfizer connections we're making a big step in our drug delivery area, and potentially Croda's involved in one of the biggest selling drugs of its generation. It's quite a proud time for the organisation to be involved in that, but it doesn't need it a huge amount of capital, it just needs time, it needs specialism, and it needs our focus and I'm heavily involved in that.

I don't want anybody to read that this is this is a distraction away from expanding Life Sciences. We're well on track. This is strengthening Consumer Care and then, of course, we will be looking at the refining of industrial markets in time. But this is all about strengthening that Consumer Care portfolio for the group.

Jez Maiden

And Isha, I think we've always said that we'd like to put capital to work in both the Personal Care and the Life Sciences business. I think the constraint in Personal Care is generally availability of opportunities because so many of them are privately owned cosmetic ingredients companies. So, I think you should see it as trying to put capital to work in both Consumer and Life Sciences going forward.

Steve Foots

We've got time for one more question, Jerry.

Jez Maiden

One more question. We must wrap up on the hour. Thanks.

Operator

Our last question comes from the line of Adam Collins at Liberum. Please go ahead.

Adam Collins

Yeah, just actually got three quick ones, so I'll keep it quick. So, first of all, do you know what the organic CAGR has been in revenues? Secondly, fine fragrance sales, what percentage of revenues are there? You said they were small but if you could quantify that? And then you mentioned the owners have got 20 or 30% of the business. Will they continue to have a share of the company once you take it over?

Steve Foots

Yeah. Thanks, Adam and morning to you. The first question Andrew Stott asked the same one so it's 10 to 12% organic growth CAGR in the business, stripping out all M&A business, which is that. This will be the third time they've got the money out over the last certain 12 years. So, in the North East term that they're not short of a bob or two but they're very much committed – so they won't have any stake in the business going forward other than the usual incentive programmes that we've got for all the divisions in the group.

And very, very keen to stay on. They are really excited that Croda are buying and the combination will work so we have no problem with motivation, commitment and engagement; far from it actually. So, we don't see any issues with that. And Jez, anything on fine fragrances. Have we got any numbers on – it's relatively small?

Jez Maiden

Yeah, it's relatively small, Adam. The majority of the fragrances are going into the Personal Care and the Home Care and Hygiene market. So, yeah, there is a fine fragrance presence and clearly in 2020 that's been the part of the business that's been impacted more by COVID in the same way that our own top end of Personal Care has by the disruption in the Prestige and Travel markets. But it's a relatively small proportion compared with the mainstream Personal Care and Home and Hygiene.

Adam Collins

Yes, Jez, did you give us a sense of the geography of that fine fragrance? You said it was small, I think, in answer to do a question and you mentioned where that might be within the business geographically.

Jez Maiden

No, my understanding Adam is the emerging market follows the same pattern in terms of this is much more around emerging market exposure, in the same way that the mainstream business is.

Adam Collins

Okay, thank you.

Operator

Okay. I will now hand back to our speakers for closing comments.

Steve Foots

Well, thanks, everybody. Lots of good Q&A there and this is, as I said, part of our strategy to strengthen Consumer Care, and we will update you in the market in February on all the other activity in the group. There's a lot going on, particularly in Life Sciences. So, plenty to get our heads around, as they say, and thanks very much for your engagement and we will see you in February. Thank you.

Operator

This now concludes our conference call. Thank you all for attending. Participants, who may now disconnect your lines.