

CRODA

Croda International Plc

# Full year 2023 results Analyst presentation

27 February 2024



# Disclaimer

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## Cautionary statement

This review is intended to focus on matters which are relevant to the interests of shareholders in the Company. The purpose of the review is to assist shareholders in assessing the strategies adopted and performance delivered by the Company and the potential for those strategies to succeed. It should not be relied upon by any other party or for any other purpose. Forward looking statements are made in good faith, based on a number of assumptions concerning future events and information available to the Directors at the time of their approval of this report. These forward looking statements should be treated with caution due to the inherent uncertainties underlying such forward looking information. The user of this review should not rely unduly on these forward looking statements, which are not a guarantee of performance and which are subject to a number of uncertainties and other facts, many of which are outside the Company's control and could cause actual events to differ materially from those in these statements. No guarantee can be given of future results, levels of activity, performance or achievements.

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## Alternative Performance Measures (APMs)

We use a number of APMs to assist in presenting information in this statement in an easily analysable and comparable form.

We use such measures consistently at the half year and full year, and reconcile them as appropriate. Whilst the Board believes the APMs used provide a meaningful basis upon which to analyse the Group's financial performance and position, which is helpful to the reader, it notes that APMs have certain limitations, including the exclusion of significant recurring items, and may not be directly comparable with similarly titled measures presented by other companies. The measures used in this presentation are defined in Croda's results statement for the year ended 31 December 2023.

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## Market information

Market information is company compiled informed by a range of third party sources.

# Agenda

01. Executive summary
02. Five-year sales performance
03. 2023 performance
04. Financial performance
05. Future performance drivers
06. Outlook and conclusion
07. Questions



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# 01 Executive summary

**Steve Foots**

Chief Executive Officer



# A challenging year; well positioned for macro-recovery

## Significant headwinds in 2023

- Follows 2 record years post pandemic
- Sales down 19%:
  - Unprecedented destocking and demand weakness in Beauty, Crop and Industrial markets
  - Divestment of PTIC – £191m of sales in 2022
  - Covid-19 normalisation – c.\$60m of lipid sales in 2023 vs c.\$120m in 2022
- Operating gearing reduced margin

## Highlights

- F&F, Pharma (ex-CV19) and Seed all growing
- Actives and Home Care broadly flat
- Continued strong demand for innovation and sustainable ingredients
- Excellent cash generation
- Strong balance sheet supporting ongoing investment
- Simpler operating model implemented

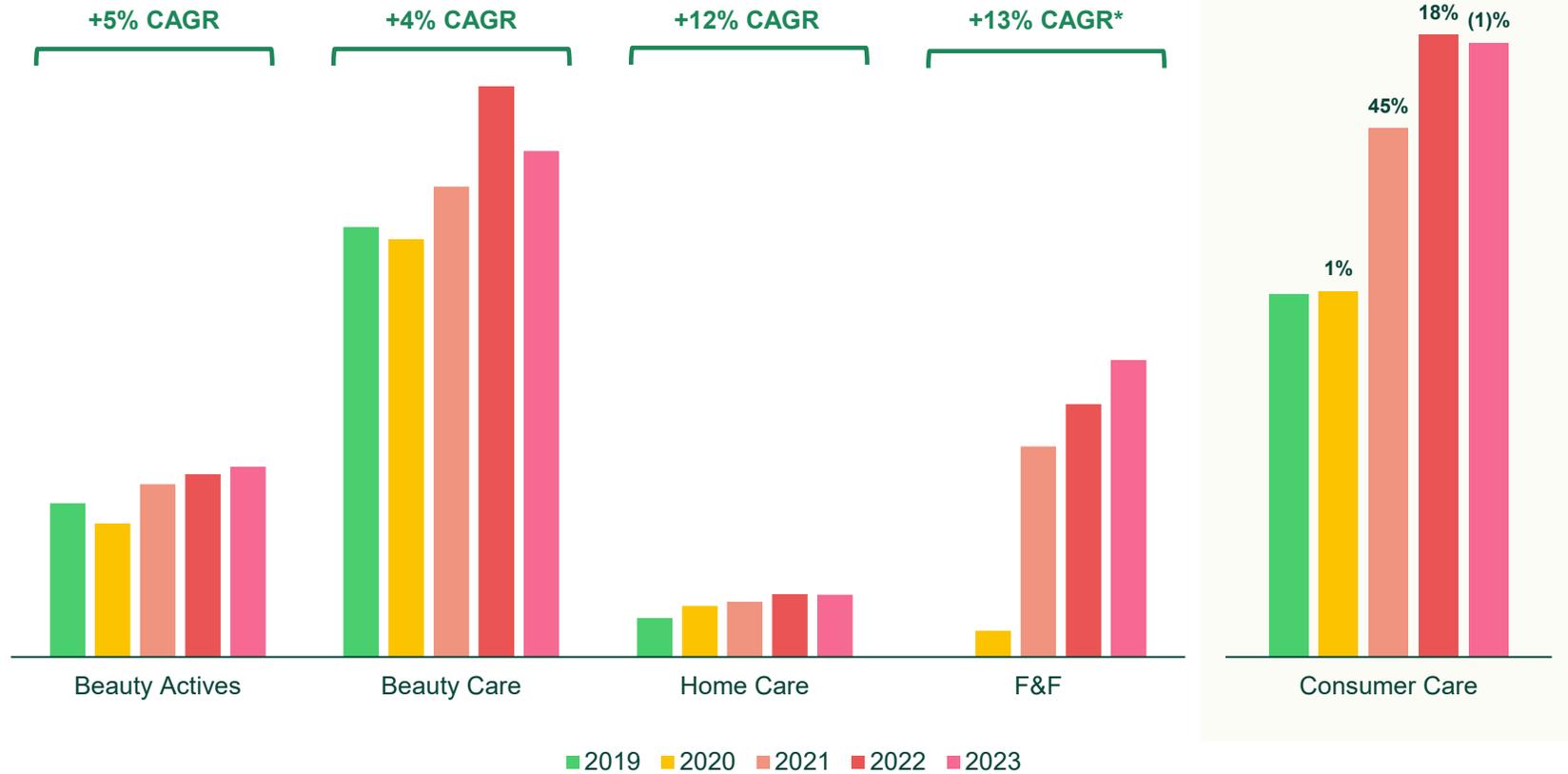
**Continued dividend progression indicating future confidence**

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# 02 **Five-year sales performance**

# Consumer Care

## Reported sales (£m)

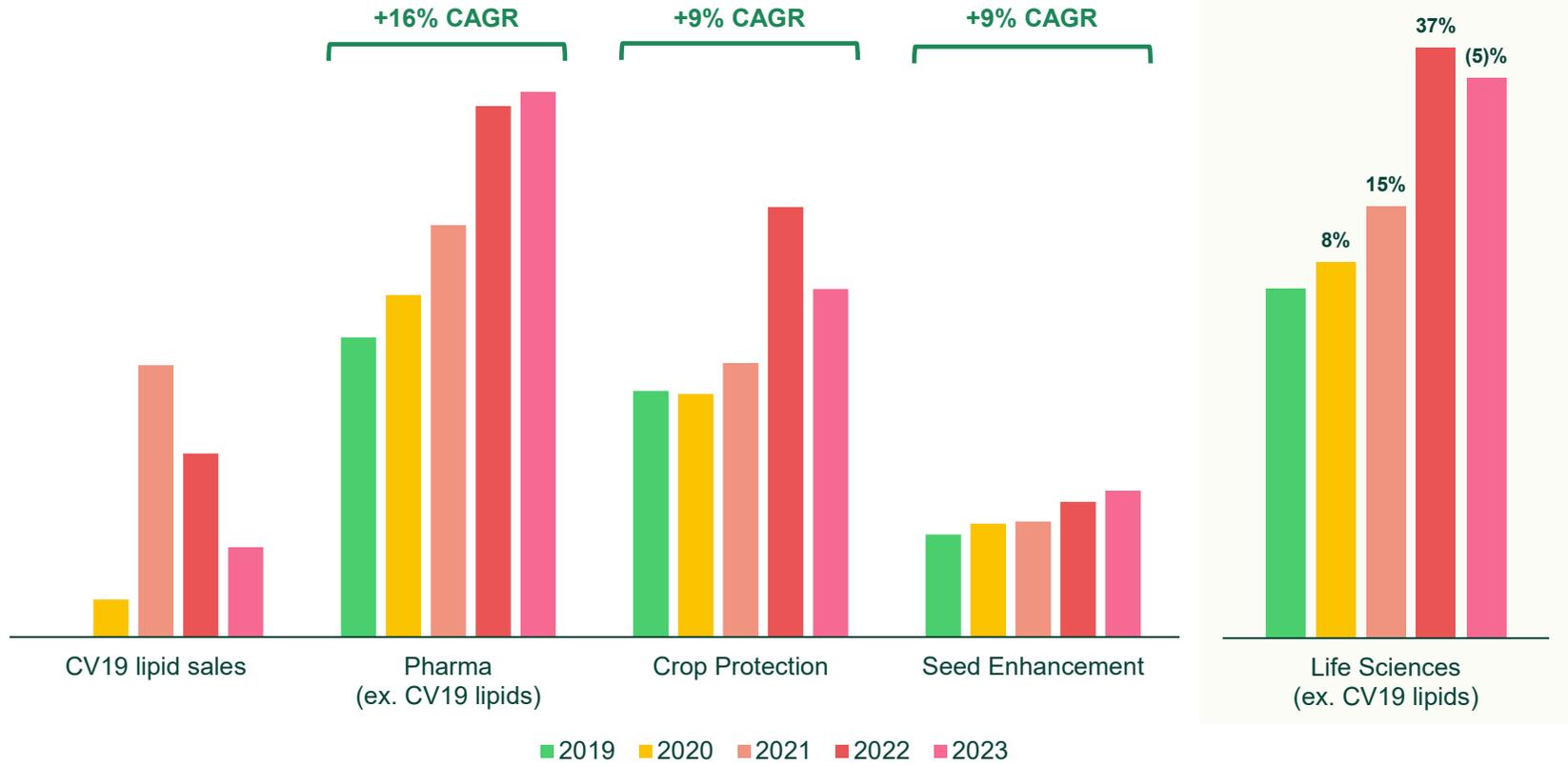


Reported sales. Consumer Care chart to different scale. \*F&F CAGR includes full year sales in 2019 and 2020 before Croda ownership

5-year sales performance

# Life Sciences

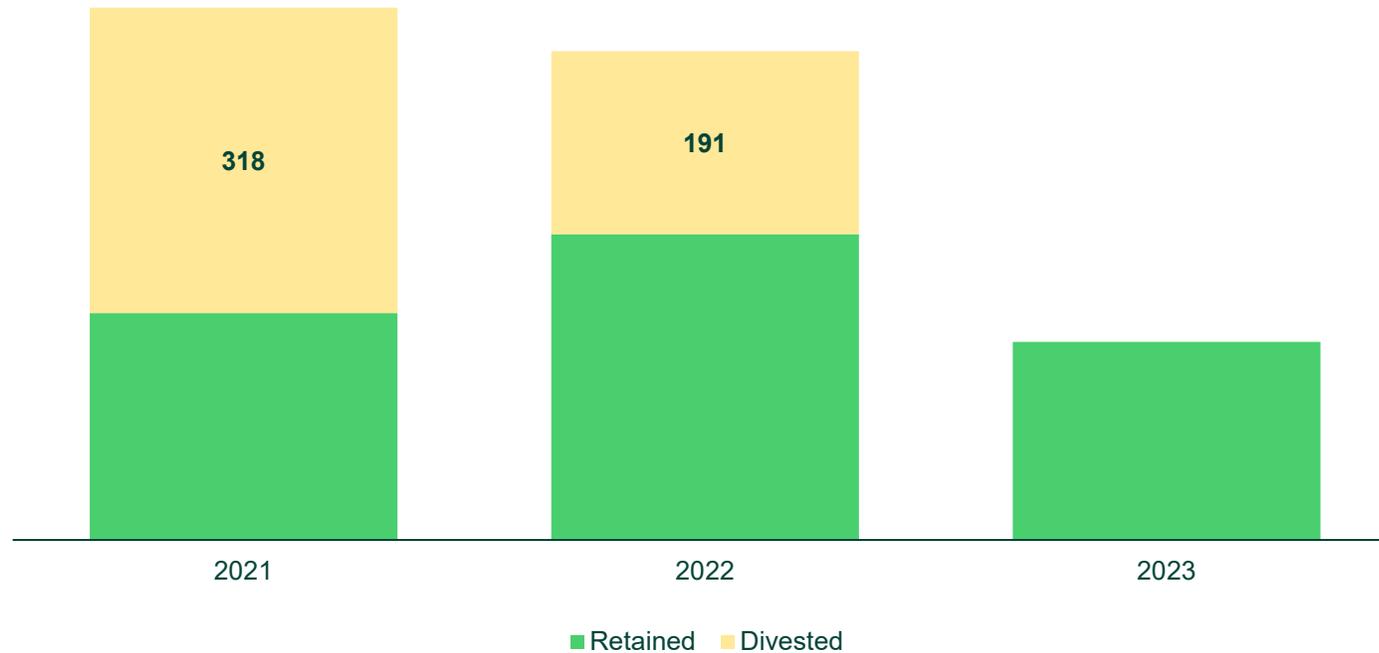
Reported sales (£m)



Reported sales. Life Sciences chart to different scale

# Industrial Specialties

## Reported sales (£m)



**Industrial Specialties** – playing an important role in our manufacturing model:

- Contributing sales volumes to enhance asset utilisation at core multi-purpose sites
- Monetising co-streams to maximise value of all products
- Operating supply agreement with new owner of the divested business

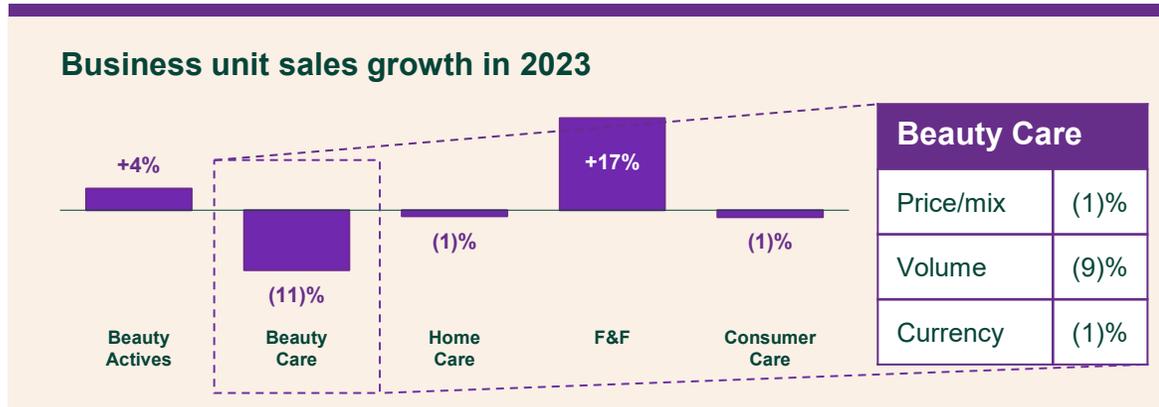
\*Reported sales. Industrial Specialties comprises the businesses retained by Croda following the sale of Performance Technologies and Industrial Chemicals to Cargill on 30 June 2022. Divested sales estimates the impact on reported sales had the divestment occurred at the start of the accounting period

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# 03 2023 performance

# Consumer Care – ongoing demand for sustainable ingredients

## 2023 sales performance



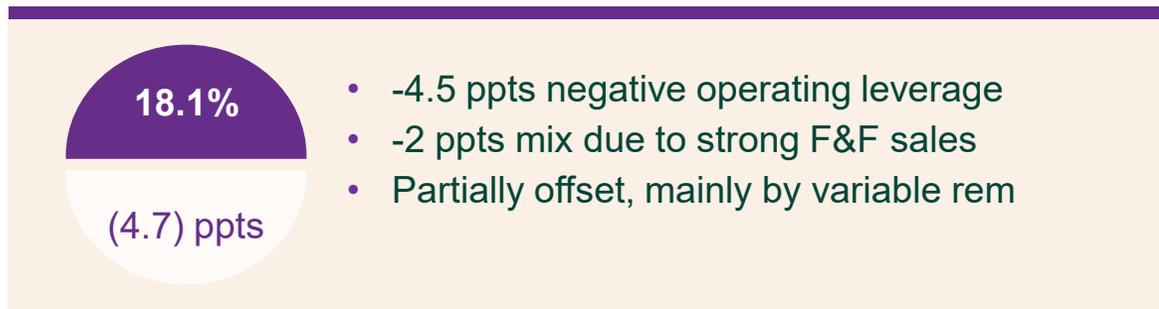
## Highlights

**20%+**

Sales growth of ECO surfactants

- New & Protected Product sales up to 42% (2022: 41%)
- Continued sustainability-related demand
- First ceramide sales in Beauty Actives
- +12% sales growth in China and India

## 2023 operating margin



## F&F growing more strongly than peers

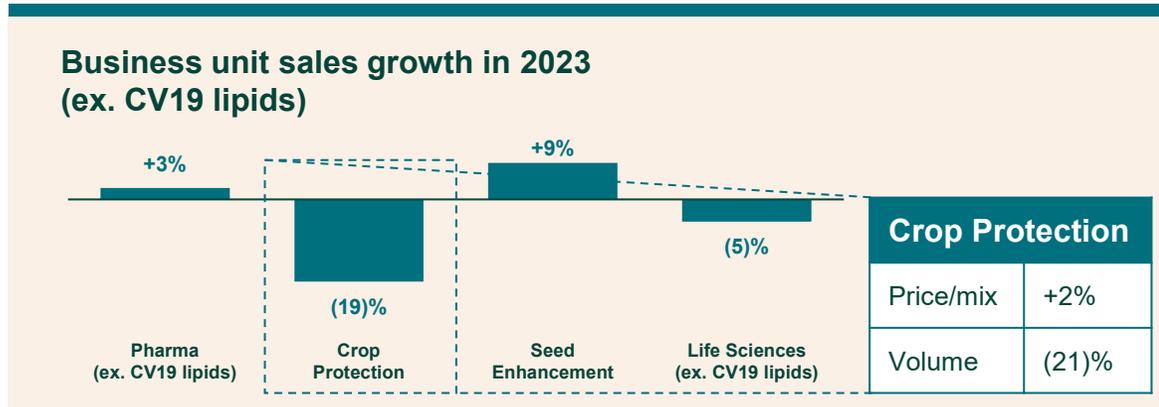
**17%**

Sales growth

- Distinctive positioning in fast-growth markets and agile model
- Sales up in all categories and regions
- Sales growth in line with acquisition plan

# Life Sciences – resilient performance in challenging markets

## 2023 sales performance



## Highlights

**+9%**

Sales growth in Seed Enhancement

- Life Sciences sales 5% lower excluding CV19 lipid sales
- Core Pharma sales up 3% on same basis
- Ongoing destocking in Crop Protection
- Seed Enhancement winning market share

## 2023 operating margin



## Resilient performance from core Pharma business

Consumer Health  
Adjuvants Systems  
CV19 lipids



Small Molecules  
Proteins  
Nucleic Acids



- Challenging market conditions but...
- Broad and diverse portfolio
- Industry-leader in drug delivery

# Continued improvement in non-financial performance

## Improving on our leading customer NPS

**+34**

2022: +23

- 92% customers rate our product quality highly
- “You are becoming easier to do business with” – 6% improvement

## Demonstrating our commitment to sustainability

**22.8m**

Lives sustainably improved by Croda Foundation

- Big impact from Croda Foundation
- Emissions reduction on track

## Putting employees first

**4,500+**

Hours of safety training delivered to leaders

- Embedding safety as a value
- 39% women in leadership roles
- 71% employees would recommend Croda as a great place to work

## Recognised for sustainability leadership

**Straight As**

from CDP and MSCI

- New A- rating for all key CDP metrics - Climate, Forest and Water
- Longstanding triple A rating from MSCI

# Well positioned for market recovery – near-term priorities

1



## Beauty Care

Capitalising on recovery in Beauty Care

2



## Crop Protection

Focusing on innovation in Crop Protection despite ongoing destocking

3



## Pharma

Accelerating conversion of Pharma pipeline

4



## Operational improvements

All with strong operational improvements

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# 04 Financial performance

**Louisa Burdett**  
Chief Financial Officer



# Group performance in line with updated expectations

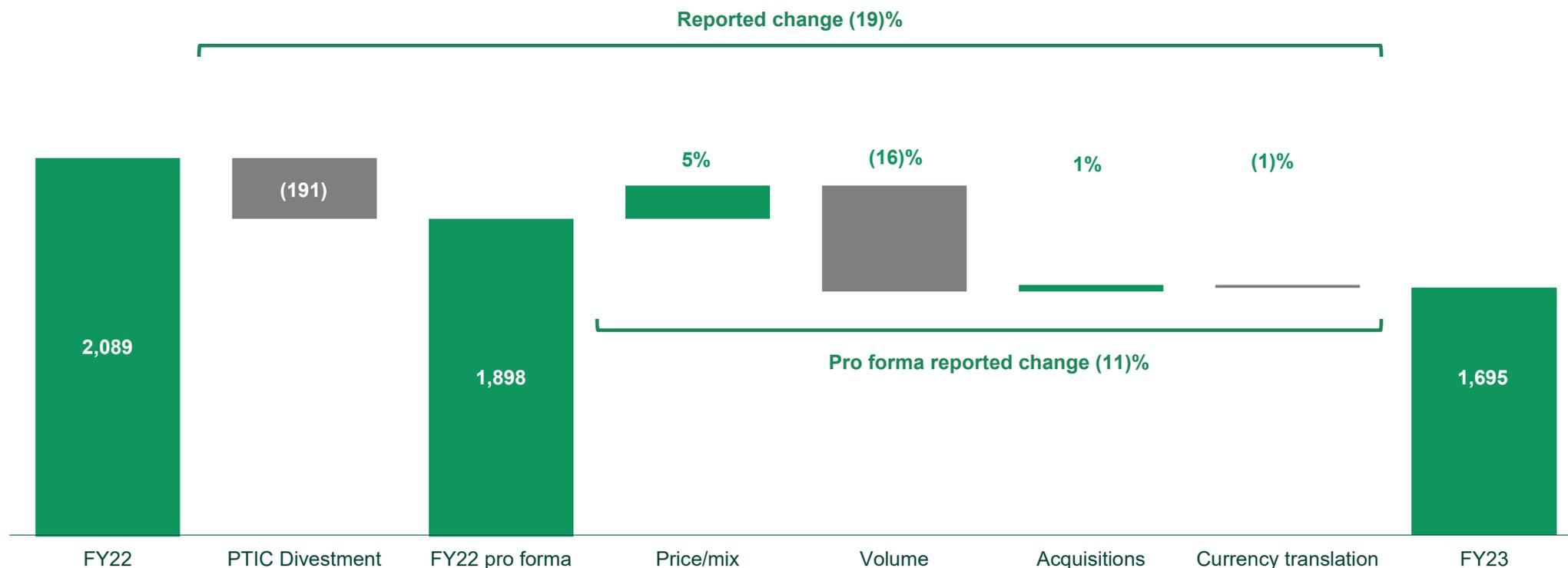
Adjusted results, £m	Adjusted results			Pro forma estimates	
	FY23	FY22	% change	FY22 (pro forma)	% change (pro forma)
<b>Sales</b>	1,694.5	2,089.3	(18.9)%	1,898	(11)%
<b>Operating profit</b>	320.0	515.1	(37.9)%	476	(33)%
<b>Operating margin</b>	18.9%	24.7%	(5.8)ppts	25%	(6)ppts
<b>Profit before tax</b>	308.8	496.1	(37.8)%	463	(33)%
<b>Basic earnings per share</b>	167.6p	272.0p	(38.4)%	–	–
<b>Ordinary dividend per share</b>	109.0p	108.0p	0.9%	–	–
<b>Free cash flow</b>	165.5	157.4	5.1%	–	–

Reconciliation to IFRS, £m	FY23	FY22
<b>Adjusted PBT</b>	308.8	496.1
<b>Exceptional items</b>	(35.8)	(37.8)
<b>Amortisation of intangibles</b>	(36.7)	(34.3)
<b>Gain on disposal</b>	–	356.0
<b>Reported PBT</b>	<b>236.3</b>	<b>780.0</b>

Reported basis unless stated. Pro forma FY22 estimated results have been adjusted for the divestment of the majority of Performance Technologies and Industrial Specialities (PTIC) on 30 June 2022. FY22 free cash flow has been restated to reflect a change of definition; see APMs for detail

# Sales reduction due to PTIC disposal and lower volumes

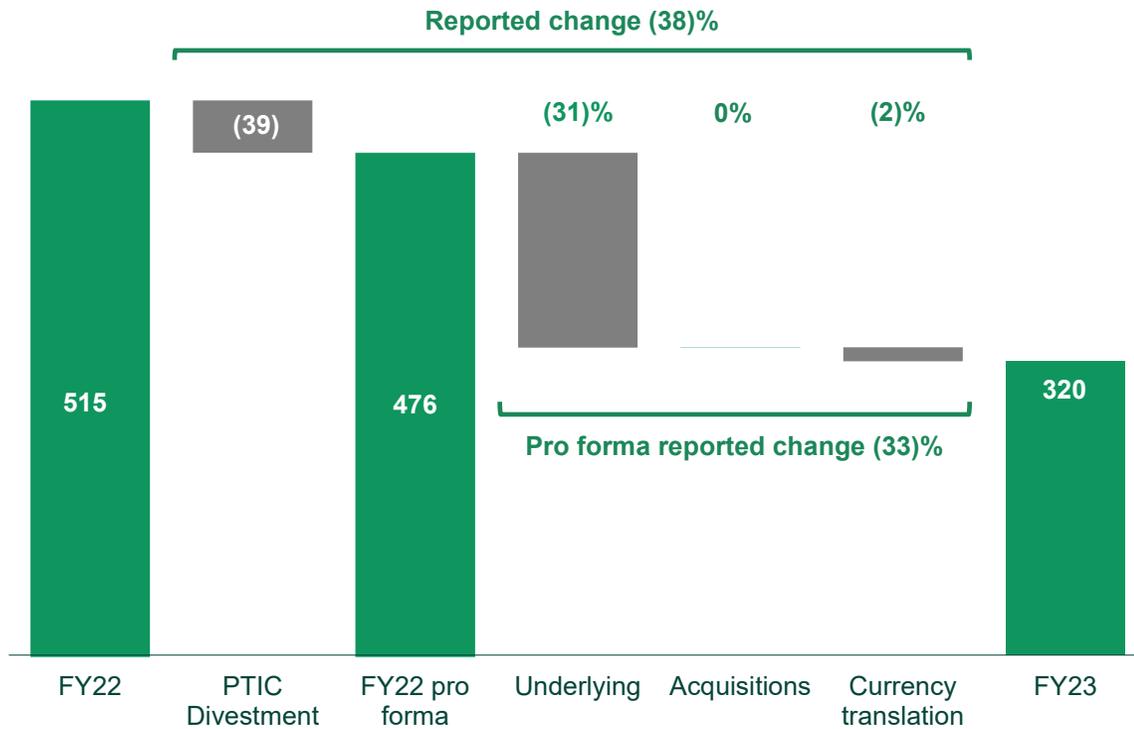
Sales, £m



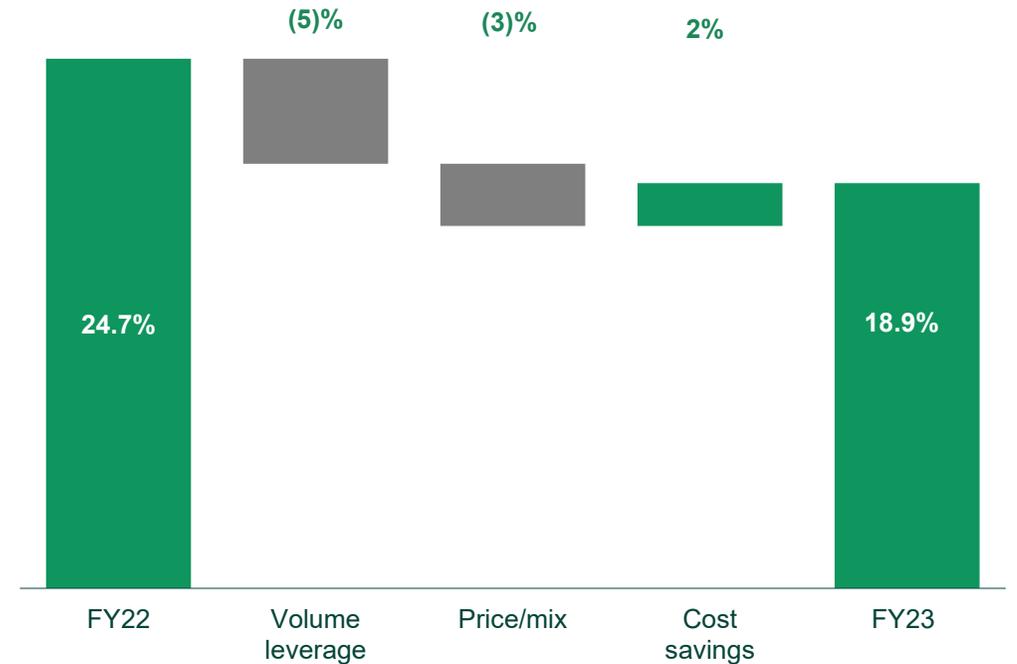
Pro forma FY22 estimated results have been adjusted for the divestment of the majority of PTIC on 30 June 2022

# Operating margin impacted by volume leverage and price/mix

Adjusted operating profit, £m



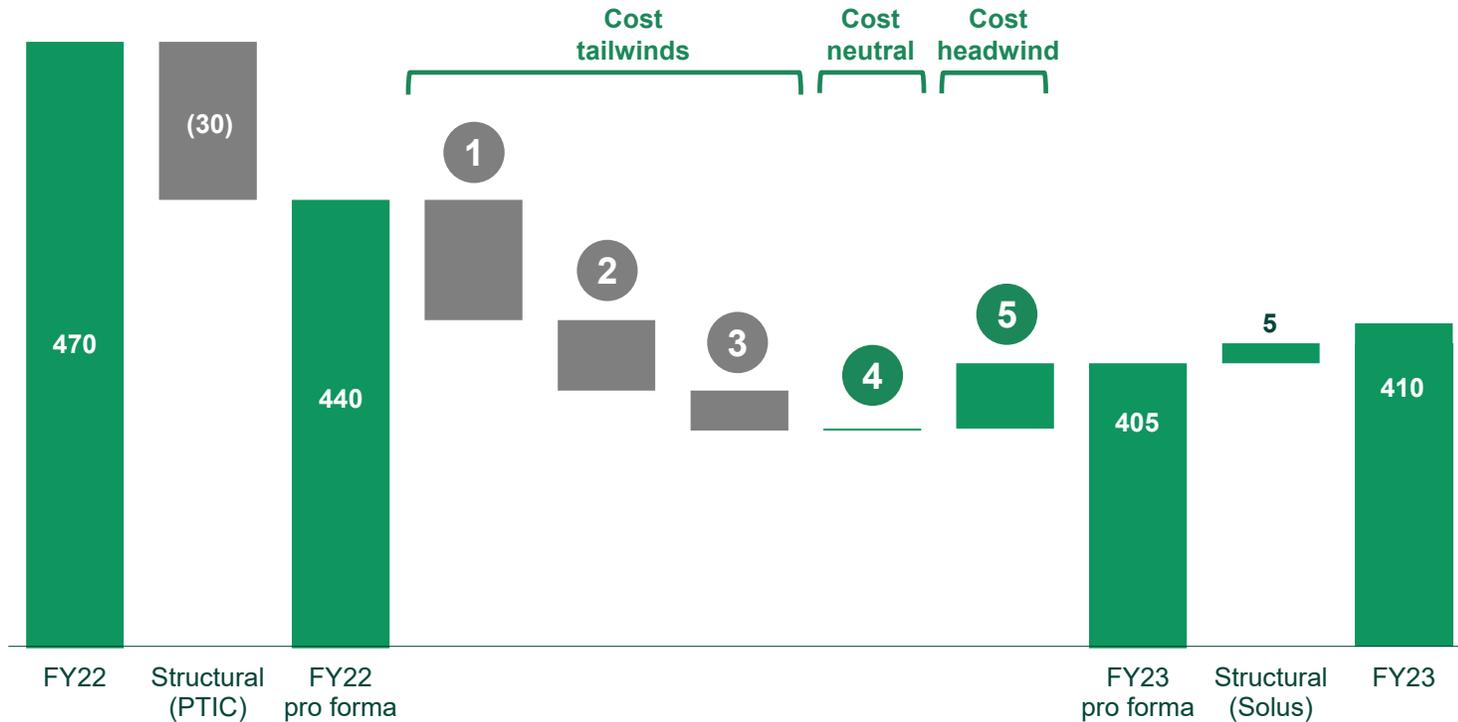
Adjusted operating margin, %



Pro forma FY22 estimated results have been adjusted for the divestment of the majority of PTIC on 30 June 2022

# Cost movements in 2023

## Operating cost movements, £m



### Cost tailwinds

- 1 Variable remuneration: c.£25m
- 2 Factory and freight: c.£15m
- 3 Other discretionary (e.g. travel): c.£5m

### Cost neutral

- 4 Employee costs: Salary increase offset by lower underlying headcount

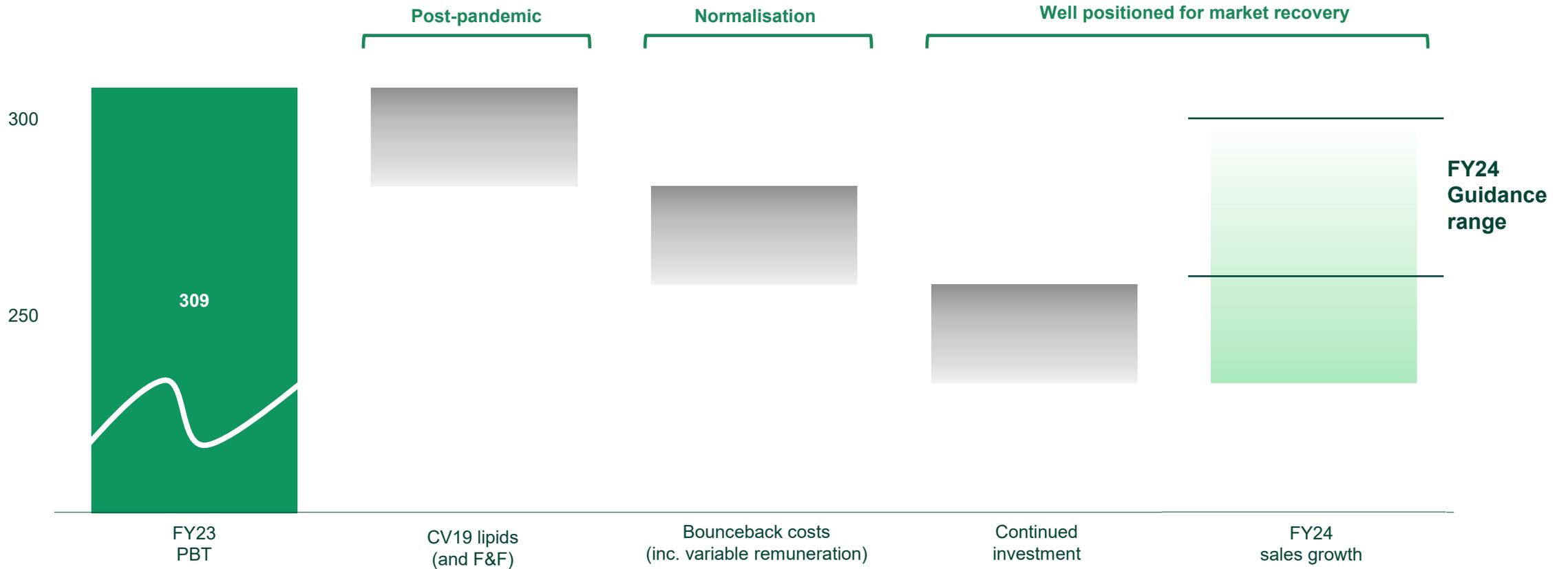
### Cost headwind

- 5 FX and IAS 29 accounting: c.£10m

Operating cost movements rounded to the nearest £5m

# Building blocks for 2024 profit performance

## Indicative PBT movements, £m



Movements are indicative only (bars are not to scale).

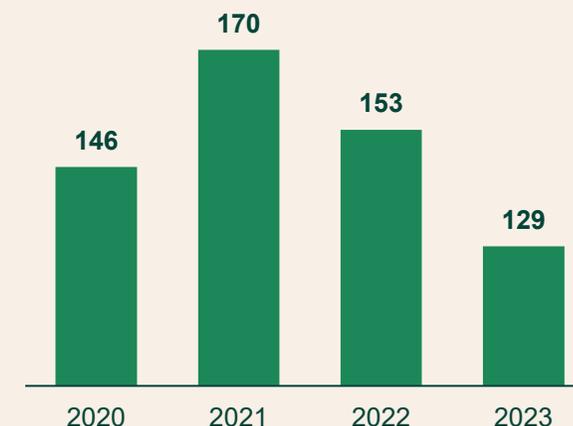
# Free cash flow – supported by strong working capital management

Cash flow, £m	FY23	FY22
<b>EBITDA</b>	<b>409.5</b>	<b>601.5</b>
Working capital	29.1	(133.8)
Interest & tax	(93.5)	(154.0)
Other cash movements	(7.6)	(5.5)
<b>Net cash from operating activities</b>	<b>337.5</b>	<b>308.2</b>
Net capital expenditure	(170.1)	(138.5)
Interest received	8.3	5.1
Payment of lease liabilities	(17.0)	(17.4)
Exceptional items	6.8	–
<b>Free cash flow</b>	<b>165.5</b>	<b>157.4</b>
Dividends	(150.7)	(144.4)
Acquisitions	(241.8)	(21.2)
Business disposal	(4.6)	579.0
Other cash movements	(18.2)	(8.5)
<b>Net cash flow</b>	<b>(249.8)</b>	<b>562.3</b>
	<b>FY23</b>	<b>H123</b>
Net debt	537.6	349.3
Net debt/EBITDA	1.3x	0.7x

## Strong working capital management

- Inventory reduced by c.£120m

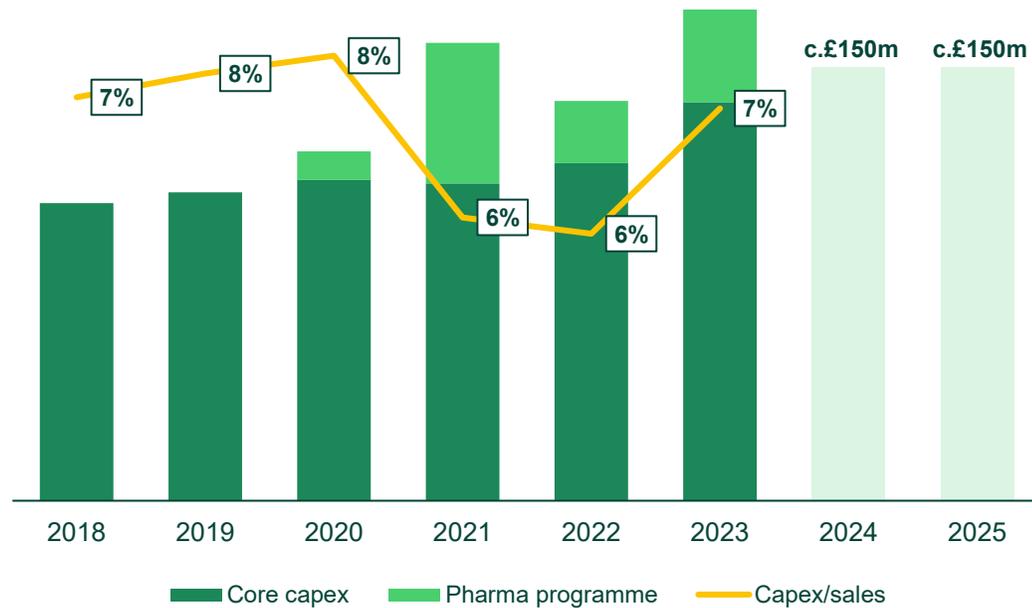
## Inventory days (2020-2023)



# Balancing investment and capital discipline

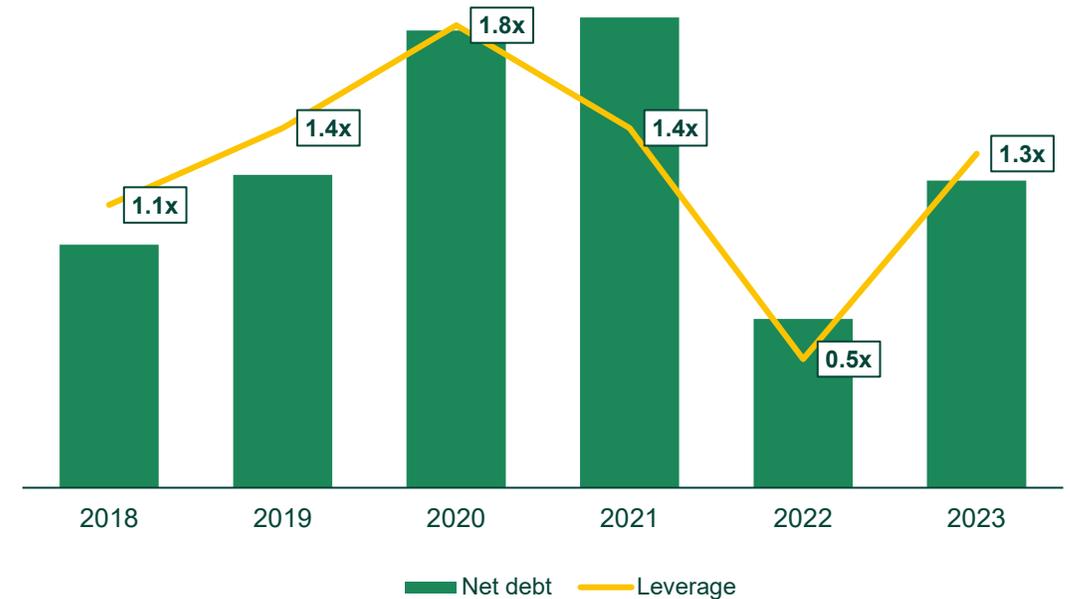
## Continuing to invest in future growth

### Net capital expenditure\*



## Capital discipline to maintain balance sheet strength

### Net debt and leverage^

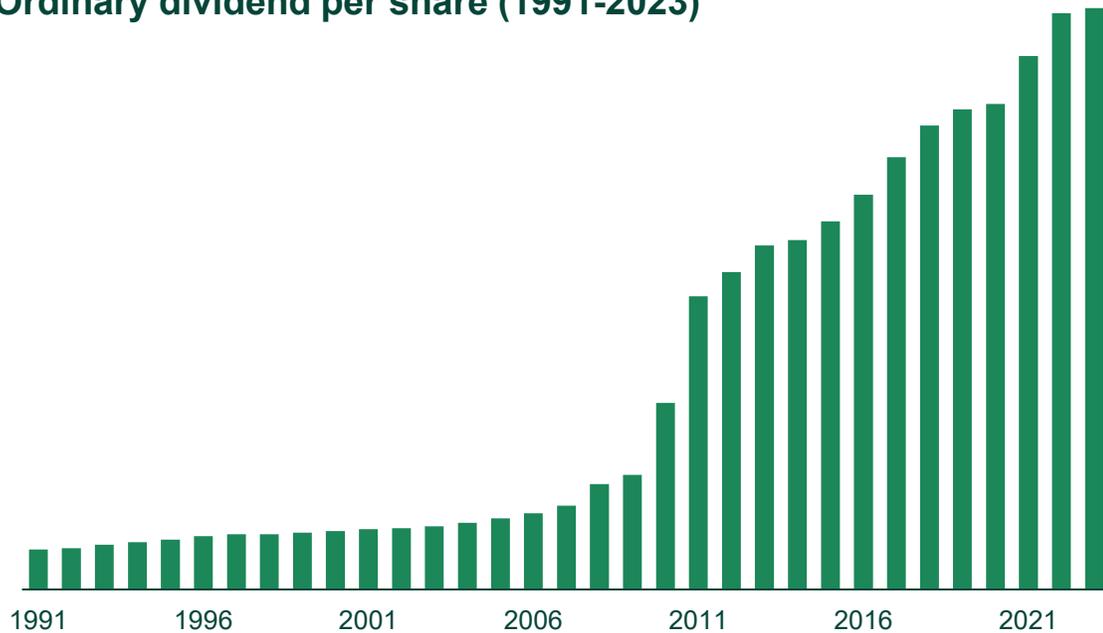


\*Capex/sales is core capex divided by reported sales. ^Leverage is net debt/EBITDA

# Committed to regular and progressive shareholder returns

## Consistent dividend progression

Ordinary dividend per share (1991-2023)



## Capital allocation policy

- 1 Reinvest for organic growth
- 2 Provide regular returns to shareholders
- 3 Acquire complementary technologies / adjacencies
- 4 Maintain appropriate balance sheet/return excess capital

# 2024 technical factors

## Input costs

### Raw materials:

- Raw material costs expected to fall c.2% in Q124 with cost deflation moderating in Q2

### Remuneration costs:

- Expect reversal of c.£25m benefit from variable remuneration and salary costs to be impacted by inflation

## Depreciation

**~£95-100m**

total depreciation including leases\*



## Net finance costs



**£15-20m**

## Effective tax rate



**~26%**

dependent on geographic mix of profit

## Working capital



Unwind of CV19 receivables and disciplined management could drive modest inflow

## Capital expenditure



**~£150m**

net of grants received

\*Excludes amortisation

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# 05 Future performance drivers

**Steve Foots**

Chief Executive Officer



# Well positioned for market recovery

## Technology trends intact



Sustainable ingredients



Move to biologics

## Continued investment in downturn

### Driving fast growth in Asia

- Solus Biotech acquisition
- Shanghai claims lab
- Guangzhou production
- New Indian manufacturing

### Strengthen Consumer Care



### Scaling Pharma

- Hyderabad small molecule lab
- Singapore nucleic acid lab
- Capital projects in USA and UK on track

### Expand Life Sciences



### Customer responsiveness

- AI and data analytics
- Operational excellence
- Multi-year SAP upgrade

### Doing the basics brilliantly



## Near-term priorities

- Capitalising on recovery in Beauty Care

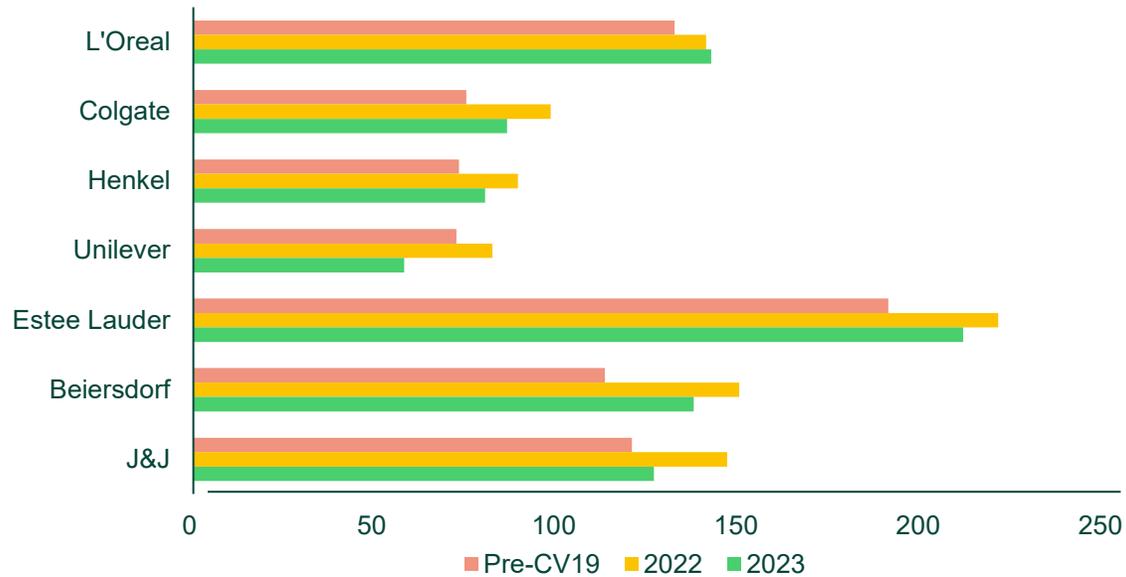
- Focused on innovation in Crop Protection
- Accelerating conversion of Pharma pipeline

- All with strong operational improvements

# Capitalising on recovery in Consumer Care

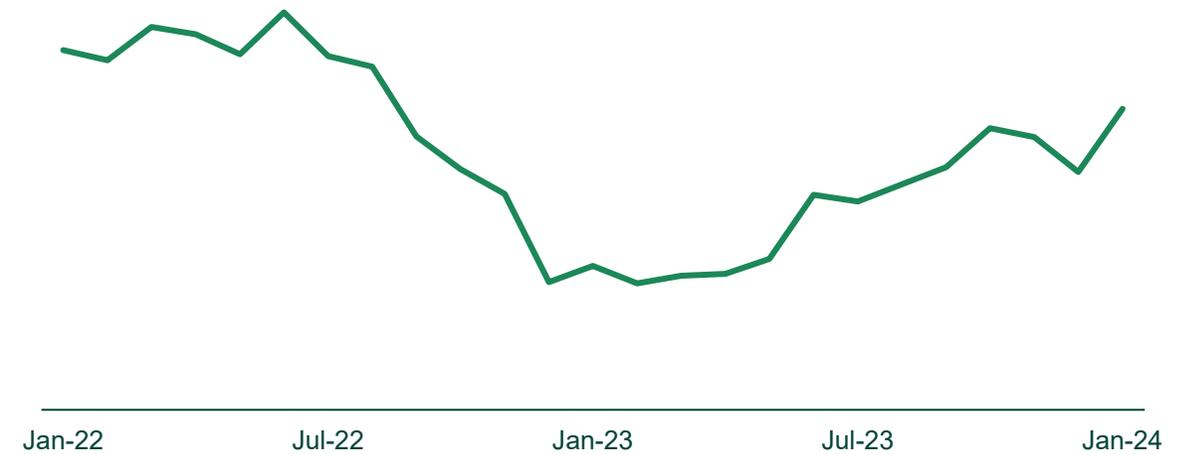
## Customer inventory levels are falling

### Stock days



## Sequential improvement in Consumer Care

### Consumer Care volumes (6-month moving average)

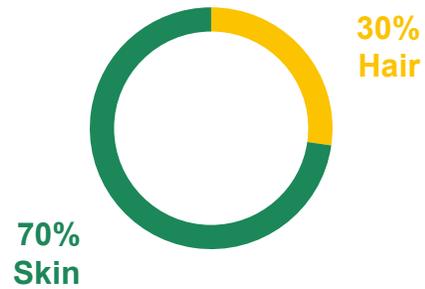


**42% new and protected products as % of total Consumer Care sales (2022: 41%) – continued demand for innovative ingredients**

\*Customer inventory data compiled by Croda from public company reports using 12-month rolling Cost Of Goods Sold. Estee Lauder stock days exclude promotional merchandise. Pre Covid-19 is average 2017 to 2019

# ...informed by enhanced insights in Beauty Care ...

## Category strength



Broad-based exposure to Beauty markets

### 2023 Performance

Inventory correction indiscriminate of category

## Balanced geography



Above-market historic 5-year CAGR in 4 out of 5 biggest countries for Beauty; USA the exception

### 2023 Performance

75% of Beauty Care sales reduction in USA

## Sustainability leadership

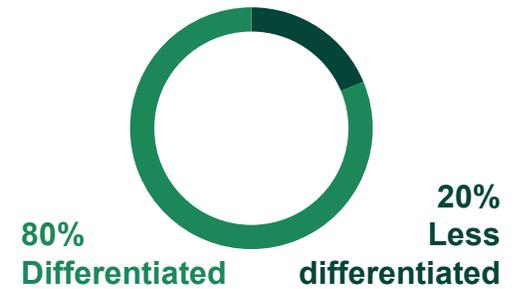


Bio-based origin significantly ahead of peers; additional biodegradable and lower-carbon claims

### 2023 Performance

Sales of sustainable ingredients stronger than the portfolio as a whole

## Differentiation



Differentiated ingredients deliver superior price and profit margin, plus lower customer churn

### 2023 Performance

Prioritised sales volumes across Beauty Care to enhance asset utilisation

**USA the key to Beauty Care recovery**

# ...and driven by a refreshed Beauty Care business plan

## Category strength

### Innovate in Skin

- Low-carbon delivery
- Inclusive beauty
- UV protection

### Innovate in Hair

- Hair repair
- Scalp wellness
- Low water use/aqua-toxicity

## Balanced geography

### Fast-grow Asia

- R&D investment
- Local advanced manufacturing

### Drive USA recovery

- Management change
- Winning back business
- Increased innovation focus

## Sustainability leadership

### Enhance leading position

- Lower carbon processes
- Transition to biotech
- Tools and data to facilitate customer choice

## Differentiation

### Accelerate differentiation

- Embedded R&D and sustainability resource

### Manage less differentiated sales

- Manage sales volumes
- Flexible pricing
- New KPI

**19%**

Consumer Care sales growth in India

### New surfactants plant, Dahej, India

- Key element of fast-grow India plan
- Supports global transition to bio-based, low carbon surfactants



### New Product Carbon footprint data

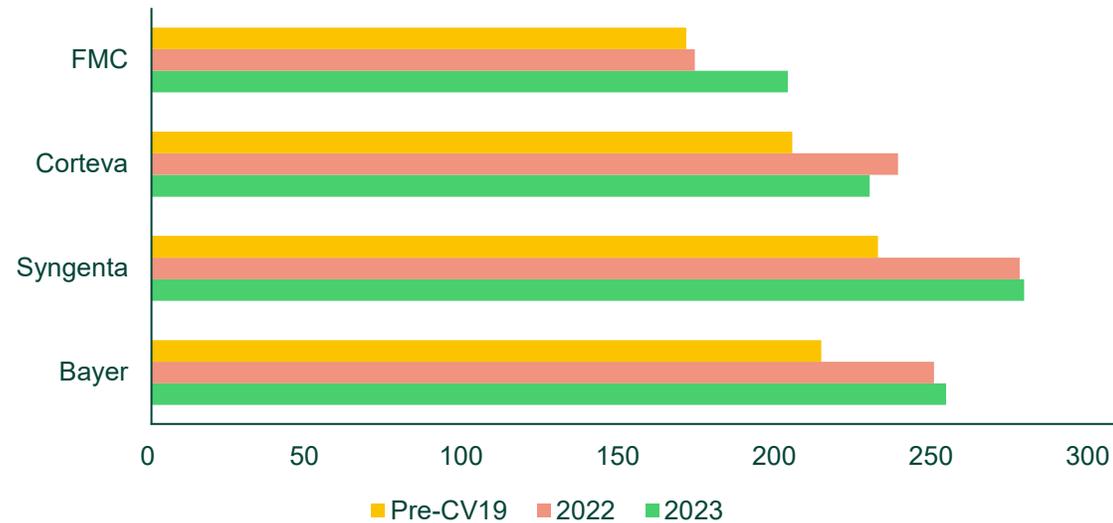
- For c.1,300 ingredients
- Enables customers to see associated emissions savings

**3/4**

of Beauty Care portfolio with product carbon footprint data

# Focusing on innovation in Crop Protection despite ongoing destocking

## Customer inventory levels remained heightened Stock days



Customer inventory data compiled by Croda from public company reports using 12-month rolling Cost Of Goods Sold. Pre Covid-19 is average 2017 to 2019

## Innovating for biopesticides and Precision Ag

Crop Protection strategy			
Sustainability	Biopesticides	Nutrition	Precision Agriculture



- First delivery system specifically for biopesticides
- Sales across 3 regions since launch in August



- China drone use x2 since 2019
- Designed in Asia
- 10x reduction in spray drift
- Sales within 2 months of launch

# Accelerating conversion of Pharma pipeline – Protein Delivery

## Proteins/mAbs market



## Croda commercial pipeline

+64%

Increase in number of projects

### Ultra-refined solution for cell health

**Market need** – components that support cell growth

**Croda solution** – unique refining and purification technology

**Progress** – new process on-stream in 2024

**Incremental sales** – from 2025

**Peak sales** – c.£20m pa

### Sustainable alternative for bioprocessing

**Market need** – sustainable alternative to current bioprocessing aid, now banned in Europe

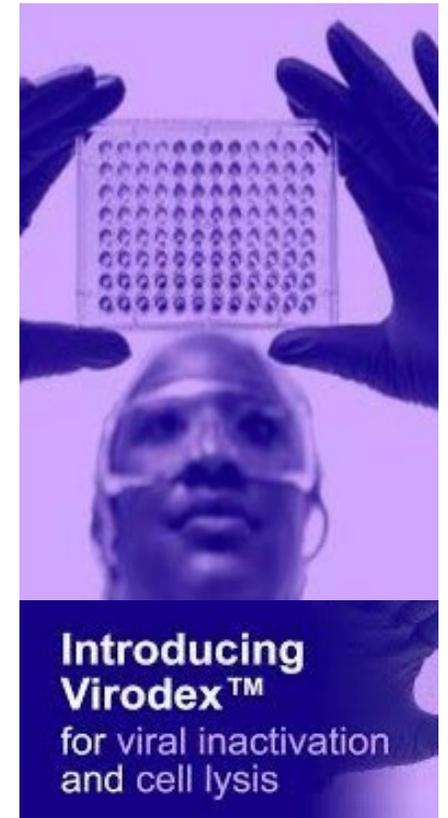
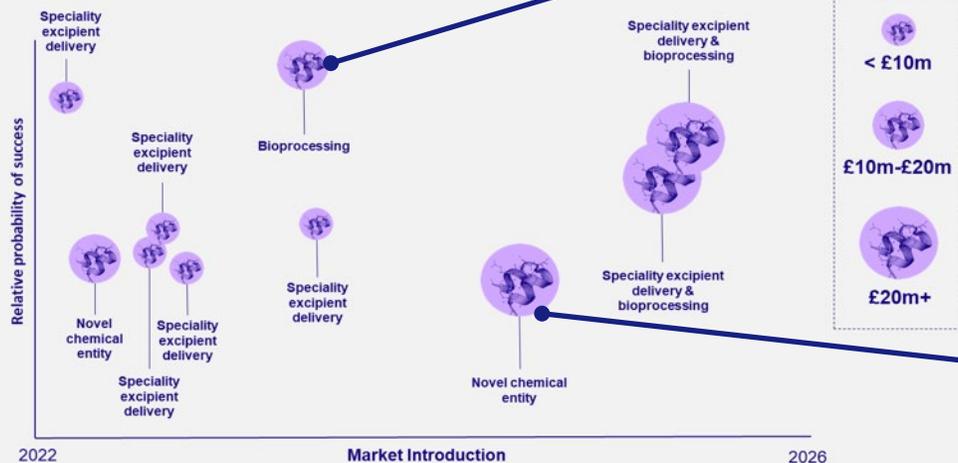
**Croda solution** – Virodex™ launched in June

**Progress** – sales within three months of launch

**Incremental sales** – multi-million pounds in 2024

**Peak sales** – c.£20m pa / 10% market share

## Innovation pipeline delivering



Croda commercial pipeline is number of qualified commercial opportunities

# Accelerating conversion of Pharma pipeline – Adjuvant Systems

## Vaccine market

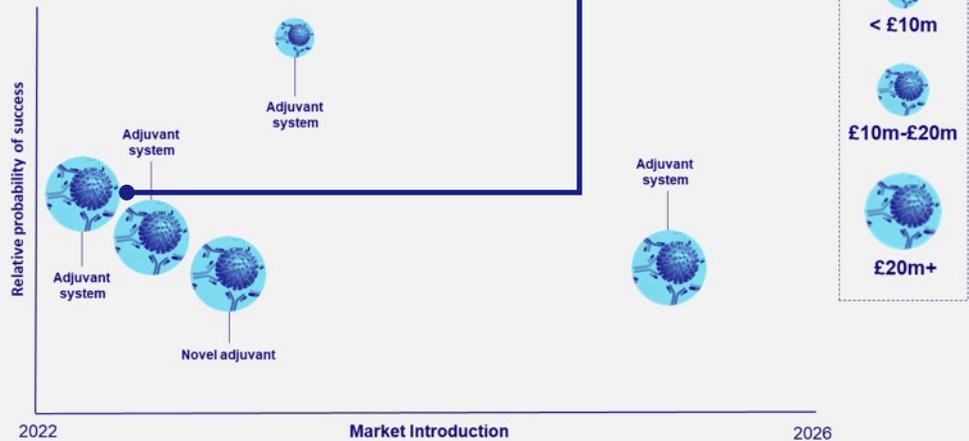


Croda commercial pipeline

+24%

Increase in number of projects

## Innovation pipeline delivering



### PHAD

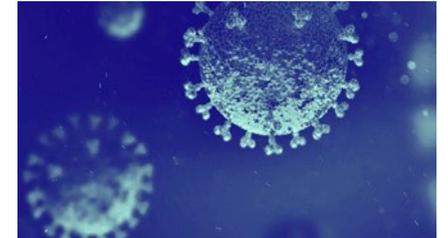
**Market need** – improve immune response to antigens  
**Croda solution** – novel lipid-based adjuvant  
**Progress** – sampled into >20 candidate vaccines  
**Incremental sales** – multi-million pounds in 2024  
**Peak sales** – £20m+ pa

NEW PARTNERSHIP  
NOT PREVIOUSLY IN PIPELINE

### Squalene

**Market need** – sustainable squalene  
**Croda solution** – fermentation-derived; shark-free  
**Progress** – being qualified by 3 vaccine companies  
**Incremental sales** – multi-million pounds in 2024  
**Peak sales** – £10-20m pa

### PHAD Portfolio



WORLDVACCINE  
CONGRESS EUROPE

### Sustainably sourced Squalene

Non-shark derived, engineered by synthetic biology

Superior quality ≥99% pure

Smart science to improve lives™ Avanti CRODA

Croda commercial pipeline is number of qualified commercial opportunities. CAGR is for vaccine adjuvants; merchant vaccine market CAGR estimates range from 5 to 10%

# Accelerating conversion of Pharma pipeline – Nucleic Acid Delivery

## Nucleic acid market



## Croda commercial pipeline

+28%

Increase in number of projects

### Leading solution supplier for mRNA vaccine development

**Big Pharma 'A'**  
Flu, RSV, Acne, Chlamydia

**Big Pharma 'B'**  
Flu, Shingles, Covid

**Big Pharma 'C'**  
Covid, Flu

### Powering the world's first approved gene editing therapy nature biotechnology

•NEWS

•21 November 2023

"The go-ahead for Vertex's gene editing therapy in sickle cell disease and  $\beta$ -thalassemia is a historic milestone"



### Customer projects approaching commercialisation



From 2025

Commercialisation expected

From 2027

Croda supporting >50% clinical trials that specify a lipid delivery system

Croda commercial pipeline is number of qualified commercial opportunities

# All with strong operational improvements

## Leveraging AI and data analytics

**95%**

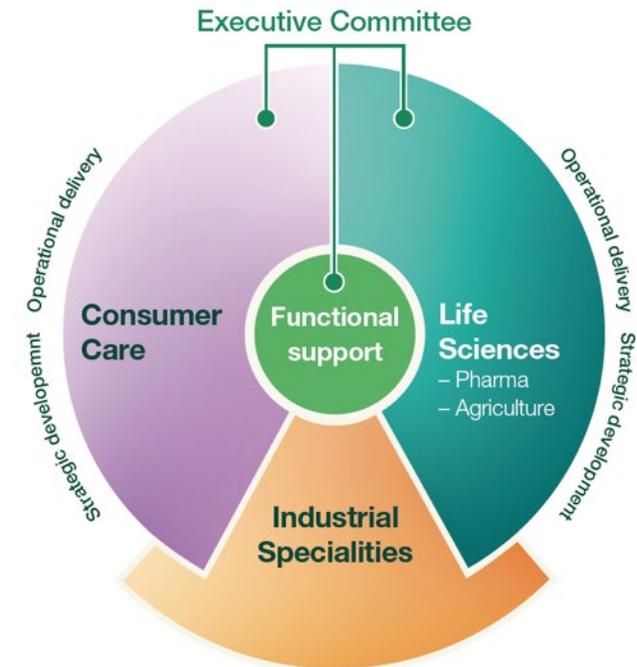
AI model delivers 10ppt improvement to tomato seed germination

- Ensures successful germination of high-value seeds
- Identifies effective formulations
- Improves speed and accuracy of product carbon footprints

### Example – refreshed operational performance dashboard



## Simplifying our structure



- Consumer Care and Life Sciences fully accountable for strategy and performance
- Faster and more effective for customers

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# 06 Outlook

# 2024 Outlook

## 2024 sales

- Given uncertainty, recovery trajectory for each business difficult to predict; possible outcomes wider than usual
- Expect mid-to-high single digit % sales growth in 2024, excluding the c.\$60m of Covid-19 lipid sales in 2023
- Higher sales volumes more than offsetting lower price/mix
- Cautiously optimistic about the improving demand trend in Consumer Care
- In Life Sciences, expect non-Covid Pharma business growth; ongoing destocking in Crop Protection
- Industrial Specialties demand expected to remain weak

## 2024 Group operating margin

Expected to be 2-3 ppts lower than 2023 due to:

- Business mix – no Covid-19 lipid contribution; continued strong growth in F&F
- Lower than normal overhead recovery due to continued low sales volumes in Crop Protection and Industrial Specialties
- Cost base to normalise from low point in 2023 including likely unwind of c.£25m benefit from variable remuneration charge, offset by modest cost savings
- Continued investment to support long-term strategy

**Using these assumptions and at current exchange rates, Group adjusted profit before tax expected to be £260-300m in FY24.**

Croda will report sales performance quarterly in 2024, providing an update on first quarter trading at the AGM on 24 April 2024.

# Conclusion

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## Strategic delivery in a challenging environment

- 2023 a challenging year
- No structural changes with technology trends intact
- Strong balance sheet supports continued strategic investment
- Focused on a clear set of priorities
- Well positioned for market recovery

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# 07 Questions

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# Additional financial information

# Quarterly sales breakdown

## 2023 quarterly sales by sector (£m)

Sector	Q123	Q223	Q323	Q423
Consumer Care	236.8	218.8	218.2	212.2
Life Sciences	170.8	132.4	125.0	174.1
Industrial Specialties	69.1	53.0	43.8	40.3
<b>Group</b>	<b>476.7</b>	<b>404.2</b>	<b>387.0</b>	<b>426.6</b>

# Currency exposure

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## Currency translation

The US Dollar and the Euro together represent approximately 65% of the Group's currency translation exposure. Sterling was broadly flat against the US Dollar and weakened slightly against the Euro.

### 2023 average rates:

- US\$1.243 (2022: US\$1.237)
- €1.149 (2022: €1.174)

### Average annual impact:

- £1m per \$cent pa
- £1m per €cent pa

The impact of changes in exchange rates for other smaller currencies, which represent 35% of exposure, was more significant. Overall, the negative impact from currency translation was £9.1m on sales and £10.3m on adjusted operating profit. The disproportionate impact on adjusted operating profit reflected a £6m adverse effect from the application of IAS 29 ('Financial Reporting in Hyperinflationary Economies') to reporting in Argentina and Turkey, and a £2m foreign exchange loss from the devaluation of the Argentine peso, with the balance from the net effect of other currency movements.

