Accelerating actions to grow earnings and improve returns

"We are focused on delivery and modernisation, ensuring rigorous cost discipline and driving operational efficiencies to continue our long record of strong performance."

Accelerating actions to grow earnings and improve returns

2024 was another transitional year following two years of unprecedented demand and record profits in 2021 and 2022, then an industry-wide reset from 2023 carrying on into 2024. Whilst sales growth was lower than we hoped, proactive actions to reduce costs and drive efficiencies enabled us to deliver profits in line with our guidance. Consumer Care and Industrial Specialities both grew sales on a constant currency basis, and Life Sciences returned to growth in the second half year (ex CV19) with a better performance in both Crop Protection and Seed Enhancement. We delivered a further sequential improvement in adjusted operating margin in the second half year by proactively driving sales volumes to improve capacity utilisation, combined with strong pricing and cost discipline.

Whilst the overall economic backdrop remains subdued, we are benefitting from more stable customer inventories and demand in most markets and geographies. In Consumer Care, local and regional (L&R) customers are continuing to grow, whereas conditions for many multinational customers remain more challenging. In Pharma, biopharma markets are improving but consumer health markets remain challenging, particularly in Europe. In Crop Protection, whilst customer inventory levels are mixed, demand has started to improve in the context of stabilising crop commodity prices.

Despite unprecedented fluctuations in sales volumes since 2020 and significant raw material inflation and subsequent deflation, the financial characteristics of our differentiated business model remain strong. The margins that we make in our sales prices on raw materials continue to be attractive and stable, free cash flow generation remains strong, and we have increased the full year dividend despite lower earnings.

We are accelerating our actions to grow earnings and improve returns, driving sales growth by leveraging our intimacy with smaller customers, stepping up innovation, and driving returns from recent investments, whilst at the same time driving margin expansion through increasing capacity utilisation and realigning our cost base.

- With innovation centres close to customers in key countries worldwide and a direct sales force, our business model is optimised to support customers of all sizes. As markets continue to fragment, we are localising the delivery of innovation in Consumer Care to enhance our intimacy with L&R customers which are winning market share, and diversifying our customer base in Crop Protection
- Following a period of reduced customer appetite for new product innovation during the pandemic, we are stepping up innovation to meet renewed customer demand. Our innovation pipelines are expanding, with new and protected products (NPP) sales growing at 6% in constant currency to 35% of total sales (2023: 33%) and our priority is to convert these pipelines into commercial sales
- We are in the latter stages of our recent intensive investment cycle which has positioned us well for earnings growth with two new greenfield sites being commissioned in 2025. Our priority is now to deliver returns from all recent investments
- Croda is a high value-added ingredients business, focused on value over volume, but with inefficient utilisation remaining a drag on margins, our priority is to drive sales volumes to increase capacity utilisation at our larger manufacturing sites
- With cost base inflation ahead of revenue delivery, we are driving operational efficiencies to underpin margin progression. We are working to ensure that the actions and benefits achieved through robust control in 2024 are captured permanently and have established a business excellence team to deliver longer-term structural changes as part of our modernisation agenda. Through this multi-year programme, we are targeting £40m of incremental pre-tax benefits over the next two years, including £25m in 2025 which will largely offset inflation and incremental costs of strategic investments being commissioned.

Through these actions to drive higher profits, as well a prudent approach to managing our invested capital, we are committed to improving returns.

Business summary

Consumer Care

- Sales increased to £920.0m (2023: £886.1m), up 4% on a reported basis or 7% at constant currency
  - This comprised an 11% increase in sales volumes, with price/mix 5% lower, a 1% acquisition contribution from sales of ceramides and a 3% headwind from foreign currency translation
  - Sales to L&R customers increased 11% at constant currency
- IFRS operating profit was £128.4m (2023: £127.8m). Adjusted operating profit was flat at £160.2m (2023: £160.3m), increasing 4% at constant currency. The adjusted operating margin was 17.4% (2023: 18.1%)
- In Consumer Care, we aim to be the most sustainable and responsive supplier of innovative ingredients:
  - NPP sales grew 11% at constant currency and improved to 43% of total sales (2023: 42%)
  - We provide carbon footprint data for over 2,000 product codes, a leading position in this sector
- By business unit (in constant currency):
  - F&F led the way, growing 18%, with continued momentum in the second half year, reflecting its leading position with higher-growth L&R customers
  - Beauty Actives grew 6%, led by Asia (+16%, excluding acquired ceramides) and sales to L&R customers
  - Beauty Care sales were flat with all regions growing other than EMEA, with a 6% increase in NPP sales as we accelerate innovation, and growth in North America aided by market share regains
  - Home Care grew 13% due to its focus on innovative ingredients differentiated by sustainability

Consumer Care sales up 7% at constant currency

Life Sciences

- Sales fell to £504.3m (2023: £602.3m), down 16% on a reported basis, or 14% at constant currency
  - This comprised a 3% reduction in sales volumes, with price/mix 4% lower, a 1% acquisition contribution from sales of phospholipids, adverse impacts of 8% from the absence of CV19 lipids and 2% from foreign currency translation
  - Excluding CV19 lipids sales in the prior year, Life Sciences returned to growth in H224 driven by higher sales volumes in Crop Protection and a stronger performance in Seed Enhancement
- IFRS operating profit was £85.5m (2023: £131.7m). Adjusted operating profit was £104.0m (2023: £150.3m). The adjusted operating margin improved from 18.3% in H124 to 22.9% in H224 due to higher sales volumes in Crop Protection as well as strong cost control, resulting in a full year adjusted operating margin of 20.6% (2023: 25.0%), the prior year margin having benefitted from high margin CV19 lipid sales
- In Life Sciences our strategy is to empower biologics delivery through the development of innovative solutions:
  - NPP sales improved to 31% total sales (2023: 28%) with growth of strategic focus areas in Pharma
- By business unit (in constant currency):
  - Pharma sales fell by 2% (ex CV19) with lower sales into consumer health and veterinary markets particularly in Europe, partially offset by growth in delivery systems for protein-based drugs and lipids for drug research
  - Crop Protection sales were down 16% but up 6% in the second half year as demand began to return
  - Seed Enhancement sales were up 1% with our microplastic-free seed coatings continuing to grow

Returned to growth in H224 (ex CV19)

Industrial Specialties

- Sales were £203.8m (2023: £206.1m), down 1% on a reported basis and up 2% at constant currency, with a modest increase in the second half year
  - This comprised an 8% increase in sales volumes, with price/mix 6% lower, and a 3% headwind from foreign currency translation
- IFRS operating profit was £13.6m (2023: £12.0m loss) and adjusted operating profit was £15.5m (2023: £9.4m). The resulting adjusted operating profit margin of 7.6% (2023: 4.6%) benefitted from positive product mix
- Industrial Specialties is contributing to the efficiency of our shared manufacturing sites by helping to optimise utilisation rates through sales to industrial customers, both direct and via a supply agreement established as part of the sale of the majority of our industrials businesses in 2022:
  - Direct sales grew by 5% in constant currency
  - Sales via the supply agreement fell by 5% in constant currency

See pages 20-25 for business reviews

Regional summary

- By business, Consumer Care grew sales in every region at constant currency whereas Life Sciences was behind in all regions except Asia
- By region (at constant currency):
  - Asia sales were up 7% with growth across the board other than to industrial customers in China
  - Latam was broadly flat with good growth in Consumer Care offset by lower sales in Crop and Pharma
  - North America was broadly flat aided by resilient biopharma/new drug development demand
  - EMEA sales fell 6% with Life Sciences lower, but were flat excluding prior year CV19 sales

A high value-added ingredients business

Croda provides mission-critical, novel ingredients that represent a fraction of customers' costs but are vital to the performance of their products. With a portfolio aligned with long-term technology trends, our strategy is well established and has been supported by a period of heightened investment.

Group strategy

We combine market-leading innovation with sustainability leadership to deliver profit growth, ahead of sales growth and ahead of cost growth.

- Innovation is our key differentiator, creating new market and technology niches. Our R&D teams now report directly into Consumer Care and Life Sciences, ensuring that our priorities are customer driven. Increasing customer demand for our innovation-led approach is evidenced by NPP growth, more new product development, an increase in application-focused innovation, and more external R&D partnership in areas such as biotech
- For Croda, sustainability has a direct link to commercial value with our ability to provide customers with ingredient options, often unique to Croda, that help them meet their own sustainability commitments. Demand is increasing for our ingredients that are differentiated by their sustainability characteristics, with sales of ECO surfactants and mineral sunscreens, for example, continuing to grow. We are driving commercial value from our position as a sustainability leader by expanding our portfolio of sustainable ingredients and providing best-in-class validation data to enable customer decision-making. Cradle-to-gate carbon footprint data is now available for over 1,000 product codes in Life Sciences as well as over 2,000 in Consumer Care, enabling customers to quantify the positive impact on the carbon footprint of their products

Business strategies

In **Consumer Care**, our leadership in innovative and sustainable ingredients, and the breadth of our ingredient portfolio, customer base and geographic reach are our key strengths. With the continued fragmentation of Consumer Care markets, our leading position with L&R customers, which represent 80% of sales (2023: 77%), is a particularly important source of competitive advantage as these customers win share. Our strategy is to localise the delivery of innovation to meet the specific requirements of consumers in each region, 'widen the gap' in our sustainability leadership, and prioritise selected countries, notably China and India, where we are growing strongly.

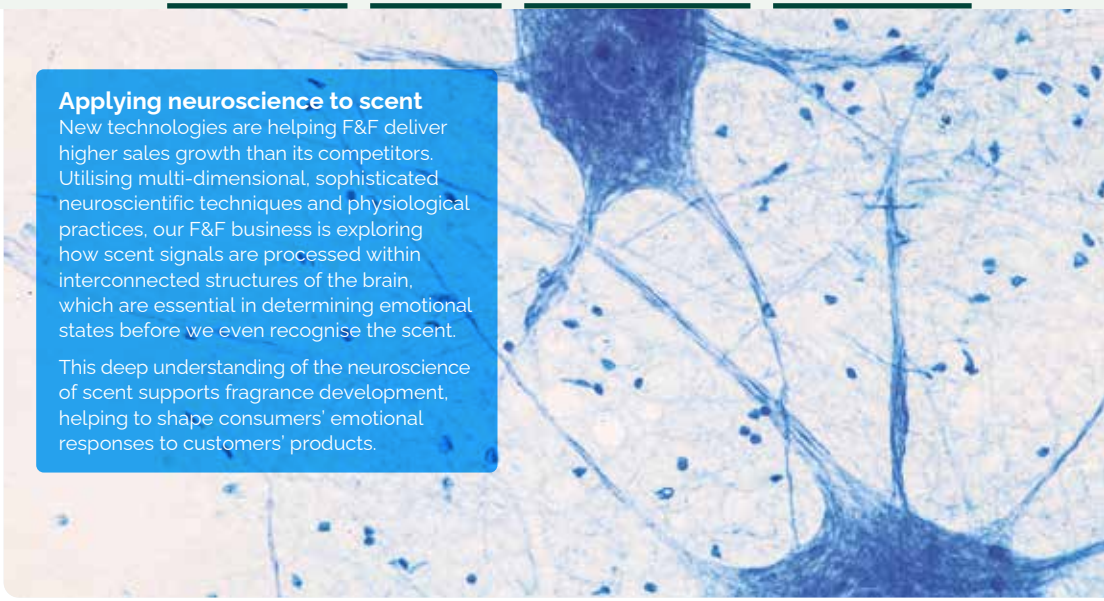
In **Life Sciences**, the move to biologics is the principal technology trend in both pharmaceutical and agriculture markets over the next decade. Through the execution of our strategy, we have established our Agriculture businesses as innovation partner for delivery systems to meet the sustainability challenges of conventional pesticide delivery while creating new systems for biopesticides. In Pharma, we have developed a portfolio of delivery systems with a well-diversified risk portfolio combining both near and medium-term growth opportunities. This includes novel technologies that generate revenue at every stage of the development cycle of new drugs, from discovery through to commercial supply.

Priorities for 2025

As we accelerate actions to grow earnings and improve returns, our priorities in 2025 as follows:

To drive sales growth we are: **To underpin margin recovery we are:**

1. Leveraging our proximity to L&R customers as our markets continue to fragment
2. Stepping up innovation to meet renewed demand from customers of all sizes
3. Driving growth and returns from all recent investments
4. Prioritising sales volumes to improve the utilisation and efficiency of our shared manufacturing assets
5. Realigning our cost base with revenues



Applying neuroscience to scent

New technologies are helping F&F deliver higher sales growth than its competitors. Utilising multi-dimensional, sophisticated neuroscientific techniques and physiological practices, our F&F business is exploring how scent signals are processed within interconnected structures of the brain, which are essential in determining emotional states before we even recognise the scent.

This deep understanding of the neuroscience of scent supports fragrance development, helping to shape consumers' emotional responses to customers' products.

Investment intensity reducing; positioned for earnings growth

Since 2020, we have completed a number of strategic acquisitions and invested selectively in projects to realign our portfolio with structural drivers of growth, taking net capital expenditure above the historic run-rate of 6-8% of sales. Investment intensity has already begun to moderate and will reduce further as key assets are commissioned in 2025. Our priority is to deliver returns from recent investments and we would expect any acquisitions in the near term to be limited to small next-generation technologies.

Net capital expenditure was £137.9m (2023: £170.1m), below our guidance of ~£150m, as we reviewed all projects and carefully considered phasing. We are towards the end of the previously announced £175m Pharma investment programme, so would expect capex to moderate further as we utilise the capacity we have built and investment in future capacity is highly selective.

Recent investments in our capital base have strengthened our position as a high value-added ingredients business, positioning us for earnings growth.

In Consumer Care:

- F&F, initially acquired in 2020 as we commenced the transition of our portfolio, is delivering sales growth ahead of its broader markets
- Our investments in Asia are delivering fast growth with Consumer Care sales up 12% in China, 17% in India and 26% in South Korea at constant currency
- Reflecting our continued prioritisation of high-growth markets in Asia, a new surfactants plant in Dahej, India is due to be commissioned in 2025, and a new facility will come on-stream in Guangzhou, in 2026 initially to support the continued growth of fragrances in China

In Life Sciences:

- Sales of lipid delivery systems for the development of new nucleic acid-based drugs have continued to grow, up double-digit percentage CAGR since 2020 (ex CV19)
- We are nearing the end of the previously announced £175m Pharma capacity scale-up programme, initially focused on lipids, with approximately £130m invested to date. This programme is being supported by an additional £75m of US and UK Government grants and provides us with the capacity necessary to deliver commercial scale volumes

Our priority is to drive returns from all investments made as part of our portfolio transition since 2020. Whilst most are already making a significant contribution to the performance of the Group, we have more work to do to ensure that Solus Biotech, acquired in July 2023, delivers the growth rate and profit conversion it is capable of. We have accelerated the integration of its capabilities into our South Korean business to leverage our global sales network and formulation expertise.

We are committed to prudent management of our invested capital base, as well as driving profit growth, to deliver consistent improvements in returns on invested capital.

Driving operational efficiencies

A new organisational structure has been in place since the start of 2024 which makes the Presidents of Consumer Care and Life Sciences fully accountable for strategy and performance. The new organisation has clarified accountabilities, is ensuring we deliver more quickly and effectively for our customers and has simplified our structure for employees.

Enabled by this simpler structure, we have identified significant opportunities to simplify business processes, modernise systems, standardise the way we work and reduce costs. We have created a new centre of business excellence to share best practice and coordinate workstreams that are targeting operational efficiencies across supply chain, operations, distribution and back-office support. Cost disciplines that were established in 2024 are also being embedded to ensure that benefits are captured permanently.

In 2025, we are targeting £25m of pre-tax benefits from this multi-year programme, largely offsetting inflation and the incremental costs that we expect to incur as our recent strategic investments are commissioned. The benefits will be principally derived from reduced payroll costs and a reduction in other operating expenses. In 2026, we are targeting a further £15m of incremental pre-tax savings, as we realise the early benefits of these efficiency and modernisation workstreams, bringing the total pre-tax benefits to £40m over two years. In addition to any non-cash charges, we estimate that the cash cost to realise these benefits will be approximately £20m, which we expect to be accounted for as exceptional restructuring charges, approximately £15m in 2025 and approximately £5m in 2026. We will go further to realign our cost base with revenue delivery as necessary, with Stephen Oxley bringing valuable experience in enhancing business performance through transformation when he joins as Chief Financial Officer (CFO) on 1 April 2025.

Outlook

We are focused on creating significant value for shareholders through sales growth and adjusted operating margin expansion in Consumer Care and Life Sciences, combined with prudent management of our invested capital base and strong cash flow generation.

With sales volumes higher in 2024 and price/mix headwinds likely to diminish, we expect both Consumer Care and Life Sciences to grow sales in 2025, and operational efficiencies to largely offset inflation and the incremental costs of investments coming online. Overall for 2025, we expect Group adjusted profit before tax to be between £265m and £295m at constant currency.

Croda will report sales performance quarterly during 2025 and we will provide an update on first quarter trading at the AGM on 23 April 2025.

Steve Foots
Group Chief Executive

The Strategic Report was approved by the Board on 24 February 2024 and signed on its behalf by Steve Foots.