We expect to continue with the current accelerated capital reinvestment and acquisition programmes over the next three years, given the strong demand environment and range of growth and technology opportunities in Consumer Care and Life Sciences.

Jez Maiden
Group Finance Director

Record profit and margin delivered

"Sales performance was excellent across all sectors, augmented by raw material cost recovery."

Adverse impact from currency translation

The average Sterling exchange rates against the Group's key currencies strengthened during 2021 to US$1.375 (2020: US$1.285) and €1.164 (2020: €1.125). As a result, currency translation reduced reported currency sales by £101.6m and adjusted operating profit by £24.8m. Transactional currency impact is correlated with translation, given that the UK is a meaningful centre of production for the Group, with the strength of Sterling having an adverse impact on margins.

Strong sales from organic growth and acquisition

Sales grew by 35.9% to £1,889.6m (2020: £1,390.3m), comprising underlying growth of 26.3% and a first-year acquisition benefit of 16.9%, partly offset by adverse currency translation of 7.3%. Volume was 8.9% higher than prior year and sales price/mix rose by 17.4%, reflecting successful recovery of raw material cost increases, together with a better product mix.

	Full year ended 31 December						
Sales	**2021 £m**	Price/mix	Volume	Acquisition	Currency	Change	2020 Restated £m
Consumer Care	**763.0**	12.8%	5.2%	34.9%	(8.3)%	44.6%	527.8
Life Sciences	**572.3**	34.9%	5.5%	13.1%	(7.7)%	45.8%	392.5
Performance Technologies	**439.5**	11.0%	12.5%	–	(5.9)%	17.6%	373.6
Industrial Chemicals	**114.8**	14.6%	10.3%	–	(5.8)%	19.1%	96.4
Group	**1,889.6**	17.4%	8.9%	16.9%	(7.3)%	35.9%	1,390.3

Sales performance was excellent across all sectors, augmented by raw material cost recovery. Consumer Care sales increased by 44.6%, supported by a return to strong volume growth. Life Sciences sales increased by 45.8%, with growth across all markets and sales of approximately US$200m from the lipid systems platform primarily to our principal vaccine customers. With volume growth in industrial end markets, Performance Technologies sales increased by 17.6%, whilst a recovery in commodity prices saw Industrial Chemicals sales 19.1% higher. Overall, year-on-year growth was slightly lower in the second half year, due to a softer first half comparator when COVID-19 had its biggest impact in 2020.

2021 sales growth	First half %	Second half %	Full year %
Consumer Care	**46.2**	**43.1**	**44.6**
Life Sciences	**61.5**	**32.5**	**45.8**
Performance Technologies	**14.7**	**20.8**	**17.6**
Industrial Chemicals	**12.6**	**25.3**	**19.1**
Group	**38.8**	**33.2**	**35.9**

Note: Sector results for full year 2020 have been restated to reflect a change to the Group's reporting structure.

Underlying sales were 17.7% ahead of 2019 (excluding sales of lipid systems introduced since 2019, to provide a better basis of comparison), demonstrating significant growth against pre-pandemic levels. Consumer Care, Life Sciences and Performance Technologies were all up double-digit percentage on 2019.

Underlying sales growth (excluding lipid systems)	% change 2021 vs. 2019
Consumer Care	**17.3**
Life Sciences	**23.6**
Performance Technologies	**15.9**
Industrial Chemicals	**8.0**
Group	**17.7**

Record profit and margin delivered

2021 saw the most significant upward movement in raw material prices for over a decade, with our average basket of raw materials in the underlying business up 17% across the year. Croda's operating model is to recover such increases as they occur and this has been delivered overall, despite a small lag in recovery in F&F, where the business model differs from Croda's traditional model. Alongside a strengthening product mix as we grew in higher value niches, this resulted in an improvement of 17% in sales price/mix.

2021 also saw significant volume recovery globally, up 9% in underlying terms, as consumer demand returned as COVID impacts eased and customers restocked. Combined with global supply chain disruption affecting many industries, including a shortage of freight containers and delays accessing ports, together with new UK/European trading procedures post-Brexit and higher COVID-related absenteeism, maintaining customer service came under some stress and we increased tactical inventory volume to alleviate delays and protect customer supply. With volume growth moderating towards the end of the year, service levels improved. Our Brexit preparation plans were implemented smoothly and successfully.

2021 included a significantly higher remuneration incentive charge than the prior year, reflecting bonus and share-based payment costs due to the enhanced profit and share price performance; this reduced year-on-year margin by two percentage points. Despite these headwinds, Croda achieved a record profit and return on sales in 2021.

	2021			2020		
	IFRS £m	**Adjustments £m**	**Adjusted £m**	IFRS £m	Adjustments £m	Adjusted £m
Sales	**1,889.6**	**–**	**1,889.6**	1,390.3	–	1,390.3
Cost of sales	**(950.7)**	**–**	**(950.7)**	(758.2)	–	(758.2)
Gross profit	**938.9**	**–**	**938.9**	632.1	–	632.1
Operating costs	**(500.7)**	**(30.4)**	**(470.3)**	(342.1)	(29.6)	(312.5)
Operating profit	**438.2**	**(30.4)**	**468.6**	290.0	(29.6)	319.6
Net interest charge	**(26.7)**	**(3.3)**	**(23.4)**	(20.5)	(1.5)	(19.0)
Profit before tax	**411.5**	**(33.7)**	**445.2**	269.5	(31.1)	300.6
Tax	**(88.7)**	**5.7**	**(94.4)**	(67.9)	4.5	(72.4)
Profit after tax	**322.8**	**(28.0)**	**350.8**	201.6	(26.6)	228.2

IFRS operating profit increased by 51.1% to £438.2m (2020: £290.0m).

The charge for adjusting items before tax was £33.7m (2020: £31.1m). In common with many companies, Croda identifies adjusting items as amortisation of intangible assets arising on acquisition, together with exceptional items, which require separate disclosure by virtue of their size or incidence. The charge for amortisation of intangible assets before tax increased to £34.3m (2020: £13.6m), reflecting the impact of recent acquisitions. The net credit on exceptional items before tax was £0.6m (2020 charge: £17.5m), comprising a gain on pensions of £11.2m (arising from transfer of the Dutch scheme to a collective defined contribution arrangement); a gain on contingent consideration of £6.2m related to previous acquisitions; a charge for business acquisition and disposal costs of £13.5m, principally relating to the sale of the majority of PTIC; and a charge for the unwind of the discount on contingent consideration of £3.3m. Excluding these adjusting items, adjusted operating profit increased by 46.6% to £468.6m (2020: £319.6m), reflecting higher sales and margin. Return on sales improved to 24.8% (2020: 23.0%).

With the adjusted net interest charge increasing to £23.4m (2020: £19.0m), including the write-off of a loan to a technology investment, adjusted profit before tax increased by 48.1% to £445.2m (2020: £300.6m). IFRS profit before tax increased by 52.7% to £411.5m (2020: £269.5m).

The effective tax rate on adjusted profit reduced to 21.2% (2020: 24.1%). This benefitted from a one-off settlement of a previous uncertain tax position; we expect the future tax rate to be around 25%. The impact of the divestment of the majority of PTIC on the future tax rate is expected to be immaterial. There were no other significant adjustments between the Group's expected and reported tax charge based on its accounting profit. With an increase in shares in issue following the equity placing to acquire Iberchem in late 2020, IFRS basic earnings per share (EPS) were 230.0p (2020: 155.1p) and adjusted basic EPS increased by 42.5% to 250.0p (2020: 175.5p).

Profit performance was strong across all sectors, led by Life Sciences where adjusted operating profit was up 67.5%, reflecting sales growth and an improvement in product mix towards higher value add niches. Consumer Care adjusted operating profit rose 28.7%, strengthening in the second half year with continued growth and mix improvement in its Personal Care business. Performance Technologies benefitted from the recovery in demand, with higher volume positively impacting operating leverage, resulting in adjusted operating profit 31.9% higher. Industrial Chemicals enjoyed significantly better profit due to improved commodity pricing.

Finance review (continued)

Operating profit	2021 IFRS £m	2021 Adjustments £m	2021 Adjusted £m	2020 restated IFRS £m	2020 restated Adjustments £m	2020 restated Adjusted £m
Consumer Care	**168.0**	**(20.5)**	**188.5**	133.0	(13.5)	146.5
Life Sciences	**201.0**	**(7.5)**	**208.5**	112.3	(12.2)	124.5
Performance Technologies	**62.7**	**(1.8)**	**64.5**	45.3	(3.6)	48.9
Industrial Chemicals	**6.5**	**(0.6)**	**7.1**	(0.6)	(0.3)	(0.3)
Group	**438.2**	**(30.4)**	**468.6**	290.0	(29.6)	319.6

Underlying growth across the sectors added £116.0m to adjusted operating profit, acquisitions within the first year of ownership contributed £57.8m and currency represented a £24.8m headwind.

	Full year ended 31 December					
Adjusted profit	**2021 £m**	Underlying growth £m	Acquisition impact £m	Currency impact £m	2020 restated £m	Change
Consumer Care	**188.5**	27.8	26.0	(11.8)	146.5	28.7%
Life Sciences	**208.5**	62.5	31.8	(10.3)	124.5	67.5%
Performance Technologies	**64.5**	17.9	–	(2.3)	48.9	31.9%
Industrial Chemicals	**7.1**	7.8	–	(0.4)	(0.3)	–
Operating profit	**468.6**	116.0	57.8	(24.8)	319.6	46.6%
Net interest	**(23.4)**				(19.0)	23.2%
Profit before tax	**445.2**				300.6	48.1%

Impact of the divestment of the majority of PTIC

On 22 December 2021, the Group announced an agreement to divest the majority of the PTIC business and is currently working with the acquirer on the process to separate the acquired activities from the Group. With completion of the divestment expected in summer 2022, this transaction had no impact on the Group's reported results for 2021, except for costs incurred reported as an exceptional item. In these 2021 results, PTIC revenue totalled £554m (2020: £470m) and adjusted operating profit was £72m (2020: £49m). Taking account of the value to be retained by Croda under future supply agreements for products to be manufactured at Croda sites and supplied to the acquirer, together with dis-synergy costs remaining with Croda which were previously allocated to the divested business, the estimated impact of the divestment on Croda's reported 2021 results, had it occurred at the start of 2021, would have been to reduce revenue by £361m (2020: £298m) and adjusted operating profit by £59m (2020: £36m).

Lower free cash flow reflecting higher investment and demand growth

Free cash flow reduced to £153.6m (2020: £176.9m) as a result of higher working capital and increased capital investment. Working capital rose by just over £100m due to increased raw material costs and selling prices, higher sales volumes and tactical increases in inventory to mitigate global distribution challenges. The impact of higher pricing and sales volume (at constant working days cover) accounted for approximately £69m of the increase with the balance reflecting tactical increases.

	Full year ended 31 December	
Cash flow	**2021 £m**	2020 £m
Adjusted operating profit	**468.6**	319.6
Depreciation and amortisation	**79.0**	68.2
EBITDA	**547.6**	387.8
Working capital	**(102.5)**	(2.3)
Net capital expenditure	**(158.5)**	(121.0)
Payment of lease liabilities	**(14.4)**	(7.6)
Non-cash pension expense	**11.2**	7.7
Interest & tax	**(129.8)**	(87.7)
Free cash flow	**153.6**	176.9
Dividends	**(132.5)**	(115.9)
Issue of new equity	**–**	615.5
Acquisitions	**(58.8)**	(869.7)
Other cash movements	**19.0**	(26.6)
Net cash flow	**(18.7)**	(219.8)
Net movement in borrowings	**37.6**	237.3
Net movement in cash and cash equivalents	**18.9**	17.5

Capital investment increased to £158.5m (2020: £121.0m), reflecting the start of a programme to reinvest proceeds from the divestment of the majority of PTIC to unlock growth opportunities in Consumer Care and Life Sciences. This is creating new technology platforms and expanding existing capacity to drive superior future growth. This organic expansion is supported by selected inorganic acquisition opportunities, with 2021 seeing £58.8m invested in new platforms, with Parfex in fine fragrances and Alban Muller in natural Beauty Actives. Together, this organic and inorganic investment reflects elements 1 and 3 of the Group's capital allocation policy, to:

1. **Reinvest for growth** – invest in organic capital expenditure to drive shareholder value creation through new capacity, product innovation and expansion in attractive geographic markets to drive sales and profit growth;
2. **Provide regular returns to shareholders** – pay a regular dividend to shareholders, representing 40 to 50% of adjusted earnings over the business cycle. The full year dividend has been raised by 10% to 100.0p (2020: 91.0p), being 40% of adjusted earnings;
3. **Acquire disruptive technologies** – to supplement organic growth, target a number of exciting technology acquisitions in existing and adjacent markets, strengthening Consumer Care and expanding Life Sciences; and

4. **Maintain an appropriate balance sheet and return excess capital** – maintain an appropriate balance sheet to meet future investment and trading requirements, targeting a leverage ratio of 1 to 2x over the medium-term cycle. We consider returning excess capital to shareholders when leverage falls below our target range and sufficient capital is available to meet our investment opportunities. At 31 December 2021, the leverage ratio was 1.4x (31 December 2020: 1.8x) and is expected to fall below 1x on completion of the disposal of the majority of PTIC.

We expect to continue with the current accelerated capital reinvestment and acquisition programmes over the next three years, given the strong demand environment and range of growth and technology opportunities in Consumer Care and Life Sciences.

The post-tax ROIC was broadly flat at 14.2% (2020: 14.6%). Despite a significant increase in average invested capital due to the annualisation of 2020 acquisition activity, the growth in adjusted operating profit net of tax resulting from these investments, together with underlying growth, broadly offset this. ROIC continues to be more than twice the Group's cost of capital.

Closing net debt was £823.2m (31 December 2020: £800.5m). The Group has a strong balance sheet with its material debt maturities falling due between 2023 and 2030, and the primary bank revolving credit facility extended during the year to 2026. As at 31 December 2021, the Group had committed funding in place of £1,225.8m, undrawn committed facilities of £334.4m and £112.8m in cash.

As part of the annual review of going concern, the Group conducts a series of scenario tests for different economic environments. In 2021, Group sales and profit performed well ahead of the base case scenario evaluated in February 2021, whilst cash generation was broadly similar.

Retirement benefits

The post-tax asset on retirement benefit plans at 31 December 2021, measured on an accounting valuation basis under IAS 19, improved to £5.8m (31 December 2020: £25.3m liability), primarily due to higher discount rates and the transfer of the Dutch scheme to a collective defined contribution arrangement. This new arrangement is accounted for as a defined contribution scheme as the Group pays a fixed rate of contributions and members are paid pensions with variable increases. The triennial actuarial valuation of the largest pension plan, the UK Croda Pension Scheme, was performed as at 30 September 2020 and indicated that the scheme was 101% funded on a technical provisions basis. Consequently, no deficit recovery plan is required. The Group has discussed with the Trustee the impact on the scheme of the planned divestment of the majority of PTIC and no changes to funding are anticipated as a result.

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 statement include:

- **Constant currency results:** these reflect current year performance for existing business translated at the prior year's average exchange rates and include the impact of acquisitions. Constant currency results are the primary measure used by management to monitor the performance of overseas business units, since they remove the impact of currency translation into Sterling, the Group's reporting currency, over which those overseas units have no control. Constant currency results are similarly useful to shareholders in understanding the performance of the Group excluding the impact of movements in currency translation over which the Group has no control. Constant currency results are reconciled to reported results in the Finance Review. The APMs are calculated as follows:
  - For constant currency profit, translation is performed using the entity reporting currency;
  - For constant currency sales, local currency sales are translated into the most relevant functional currency of the destination country of sale (for example, sales in Latin America are primarily made in US Dollars, which is therefore used as the functional currency). Sales in functional currency are then translated into Sterling using the prior year's average rates for the corresponding period;
- **Underlying results:** these reflect constant currency values adjusted to exclude acquisitions and disposals in the first year of impact. They are used by management to measure the performance of each sector before the benefit of acquisitions or the impact of divestments are included, in order to assess the organic performance of the sector, thereby providing a consistent basis on which to make year-on-year comparison. They are seen as similarly useful to shareholders in assessing the performance of the business. Underlying results are reconciled to reported results in the Finance review;
- **Adjusted results:** these are stated before exceptional items and amortisation of intangible assets arising on acquisition, and tax thereon. The Board believes that the adjusted presentation (and the columnar format adopted for the Group income statement) assists shareholders by providing a meaningful basis upon which to analyse business performance and make year-on-year comparisons. The same measures are used by management for planning, budgeting and reporting purposes and for the internal assessment of operating performance across the Group. The adjusted presentation is adopted on a consistent basis for each half year and full year results;
- **Return on sales:** this is adjusted operating profit divided by sales, at reported currency. Management uses the measure to assess the profitability of each sector and the Group, as part of its drive to grow profit by more than sales value, in turn by more than sales volume, as set out in the Chief Executive's review;
- **Return on invested capital (ROIC):** this is adjusted operating profit after tax divided by the average adjusted invested capital. Adjusted invested capital represents net assets adjusted for net debt, earlier goodwill written off to reserves and accumulated amortisation of acquired intangible assets. The Board believes that ROIC is a key measure of efficient capital allocation, in line with its policy set out in the Finance Review, with its aim being to maintain a ROIC of two to three times the cost of capital over the cycle, and that it is useful to shareholders in assessing the superior returns delivered by the Group and the impact of deploying more capital to grow future returns faster;
- **Net debt:** comprises cash and cash equivalents (including bank overdrafts), current and non-current borrowings and lease liabilities. Management uses this measure to monitor debt funding levels and compliance with the Group's funding covenants which also use this measure. It believes that net debt is a helpful additional measure for shareholders in assessing the risk to equity holders and the capacity to invest more capital in the business;
- **Leverage ratio:** this is the ratio of net debt to Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) adjusted to include EBITDA from acquisitions or disposals in the last 12 month period. EBITDA is adjusted operating profit plus depreciation and amortisation. The Board monitors the leverage ratio against the Group's debt funding covenants and overall appetite for funding risk, in approving capital expenditure and acquisitions. It believes that the APM is a helpful additional measure for shareholders in assessing the risk to equity holders and the capacity to invest more capital in the business;
- **Free cash flow:** comprises EBITDA less movements in working capital, net capital expenditure, payment of lease liabilities, non-cash pension expense, and interest and tax payments. The Board uses free cash flow to monitor the Group's overall cash generation capability, to assess the ability of the Company to pay dividends and to finance future expansion, and, as such, it believes this is useful to shareholders in their assessment of the Group's performance.