

Sector review continued

Performance Technologies: Our innovative, low-carbon, sustainable and technology-rich additives and materials enable the transition of industrial markets to new sustainability-driven solutions. We work with our customers to help them to deliver superior performance, lower carbon, and greater circularity in materials, mobility, energy, and water industries.

Sector President: Anthony Fitzpatrick

Sales in Performance Technologies were resilient in challenging industrial markets globally but profitability reduced significantly

Sales

£416.4m

2019: £430.2m

Adjusted operating profit

£54.0m

2019: £69.4m

Resilient sales in challenging markets

Sales in Performance Technologies were resilient in challenging industrial markets globally but profitability reduced significantly. After a good start to the year as customers initially secured inventory in the supply chain when COVID-19 took hold, sales progressively weakened during the second quarter alongside temporary closures of automotive and industrial plants, with sales in June almost 20% below prior year. The second half saw a steady recovery, with fourth quarter sales encouragingly 5% higher than prior year.

Sales declined by 3.2% and adjusted operating profit by 21.3%, in constant currency. Overall volume ended the year unchanged on the prior year but with a negative price/mix of 3%, reflecting a more competitive pricing environment in difficult market conditions. There were no acquisitions. In reported currency, sales also declined by 3.2% to £416.4m (2019: £430.2m) and adjusted operating profit reduced by 22.2% to £54.0m (2019: £69.4m). Return on sales was 13.0% (2019: 16.1%), with the reduction due to the higher operating leverage in this sector and lower production in European sites, a change in profit mix due to a sharp decline in sales in the higher margin Energy Technologies business and the sector's share of the ECO plant loss in the US. IFRS operating profit was £50.4m (2019: £63.8m).

There was a marked variation in the performance of the different businesses. Smart Materials was resilient, with sales ending slightly up on prior year, driven by record sales in packaging and hygiene markets from the need for greater protection of products from contamination and the use of polymer additives as a key component in many COVID-19 applications,

including PPE and medical supplies. Within the Home, Fabric and Water business, hygiene and household care applications saw strong demand, reflecting both COVID-19 stimulated demand and increased sales of our ECO sustainable solutions. By contrast, the Energy Technologies business saw sales down over 15% in constant currency, impacted by sharply lower lubricant demand in automotive and reduced flow control additive sales for oil and gas as underlying production levels fell. By quarter four, demand had returned to some industrial and automotive markets, with Energy Technologies sales back to 2019 exit levels and Smart Materials remaining in growth, with a stronger order book by year end.

'Refine to Grow' strategy

The strategy for Performance Technologies is to 'Refine to Grow'. The last two years have shown that the sector remains exposed to the industrial cycle. By redeploying capital selectively within the business, we will reduce exposure to older cyclical technologies and focus more on technology-rich markets, to:

- Focus on higher-growth and more valuable markets where we have technical expertise and digital capabilities, thereby increasing the 'knowledge intensity' of the portfolio and reducing its capital intensity and operating leverage;
- Develop the sector's geographic footprint beyond its traditional European and US markets, especially in Asia; and
- Leverage the sector's strong sustainability credentials to meet customers' product needs and help them deliver their 'green' targets.

The Smart Materials business offers sustainable, low-carbon solutions and speciality effects primarily to global polymer and adhesive markets. Global use of polymers continues to grow but, by refining our portfolio, we are helping to move away from a linear plastics economy to a circular one, creating biodegradable and recyclable polymer solutions. In 2021 we will complete a £30m expansion project in the UK, allowing us to offer customers new technologies in high-value polymers for lightweight and durable applications. In Energy Technologies, whilst the internal combustion engine will remain important for many years to come, we are using our distinctive technologies to align to the

sustainability-driven transition of industrial markets, such as renewable energy and mobility. This focus will see us move up the value chain and closer to Original Equipment Manufacturers (OEMs). In the automotive market we are working with global manufacturers to enhance drivetrain lubrication of electric vehicles and in 2020 we launched Hypermer Volt 4000™, a conductive carbon dispersant that improves battery capacity to meet electrification challenges across a range of industries. In Home Care we secured new sales to customers for our ECO sustainable surfactants, and delivered significant growth in Coltide Radiance™, a protein-based fabric conditioner technology that extends the life of fabrics, saving on textile waste.

Across Performance Technologies, we are shifting sales and innovation resources towards higher-growth regions, with encouraging sales progress in Asia and EEMEA in 2020. We established a new state-of-the-art applications laboratory in Shanghai to provide innovation and technical support to customers in China. Our innovation pipeline continues to improve, with NPP as a proportion of sector sales stable at 19% (2019: 19%). We are building on recent acquisitions and investments which support our R&D. In Smart Materials, Ionphase, a market-leading technology in permanent anti-static additives acquired in 2017, has a strong pipeline of opportunities in electronics, automotive and household applications. This follows a record year for revenue, profit and new applications in 2020, including the launch of an additive which controls static to avoid contamination of transparent plastic products. In Energy Technologies, Rewitec, which we acquired in 2019 and whose lubricant additives repair damage and extend the life of wind turbines, has completed several successful trials positioning it well for growth in 2021. In Home, Fabric and Water, as part of our innovation in biotechnology, a smart innovation partnership developed new probiotic ingredients for the home care market, using application-specific bacteria strains to degrade organic matter, delivering superior cleaning and odour neutralisation as well as sustainability benefits.

Continued portfolio development in Industrial Chemicals

Industrial Chemicals activities continue to support the overall efficiency of Croda's Core Business and operating sites.

2020 saw a significant reduction in global demand for industrial chemicals, coupled with continued progress to reduce low-value co-product and tolling business. As a result, constant currency sales declined by 13.4%. In reported currency, sales were £96.4m (2019: £111.8m) with a small operating loss of £0.3m (2019: £1.1m profit). IFRS operating loss was £0.6m (2019: £0.2m profit).

Sales of sustainably packaged consumer goods grew

7.1x

faster than those of conventionally marketed goods¹



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Ducky Tan

Sales Manager for Croda China

Responding to growing customer demand with bio-based polymer additives

Polymers feature in every aspect of our lives, from food packaging to medical devices and household appliances to Personal Protection Equipment (PPE). This is an industry which is evolving quickly to respond to the emerging sustainability demands of consumers. At Croda we have a long history of creating bio-based polymer additives for this diverse range of polymer applications and this year we have been particularly agile in responding to our customers' needs.

An unprecedented growth in sales in polymer additives has been driven by changes in consumer and customer requirements. Increasing demand for our sustainable, bio-based polymer additives and a growing focus on consumer wellbeing as well as pandemic-driven medical needs have combined to drive this growth. From smart packaging solutions for medicines and vaccines to hygienic PPE materials, we have been able to supply high-quality ingredients to help our customers to improve lives worldwide.

Ducky Tan, Sales Manager for Croda China said “The pace of change at Croda this year has been so exciting. 2020 was tough on everyone but I have been astounded and really proud

of how we have responded at Croda. For the last eight years my work has focused on our polymer additives business and it feels good to see that our team and business can put our Smart science to improve lives™ Purpose into action by adapting so quickly to meet our customers' needs, even in the most challenging circumstances. Together we have adapted the way we work, as have our customers. We are engaging with customers regularly through our digital capabilities including WeChat and productive customer webinars.”

Ducky added “Here in China, the significant growth we have seen this year is partly due to the pandemic but also to broader consumer trends in health, hygiene, wellbeing and of course, sustainability. We have been able to respond to these new needs and shifts in customer demand by offering safe and durable packaging ingredients for transporting hygienic solutions such as hand sanitisers. Our long phase acquisition in 2017 has also proven to be an excellent addition to the portfolio, enabling us to offer permanent anti-static solutions. Our customers are reassured by our local manufacturing capabilities which are supported by my excellent sales colleagues. I am proud to be part of this business offering Smart science to improve lives™.”



1. 2020 Sustainable Share Market Index.