

Sector review

Personal Care: Our smart science is helping our customers, large and small to create formulations with improved environmental profiles for thousands of personal and home care products while delivering clear benefits to consumers.

Sector President: Maarten Heybroek

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Second half sales recovery but profit mix impacted by consumer lockdowns

The performance of the Personal Care sector was significantly affected by lockdowns initiated in response to COVID-19. This negatively impacted sales by reducing consumer demand for products associated with 'going out' and by interrupting sales channels, particularly for prestige products. In this environment, consumer products sold in supermarkets or online performed best. For Croda, this mix change had a negative impact on the return on sales, with a higher proportion of sales of 'at home' use Beauty Formulation products and a greater sales reduction in the higher-margin Beauty Actives and Beauty Effects businesses.

In Asia, China rebounded quickly during the first half of the year, but sales remained subdued in the key regional manufacturing markets of Japan and South Korea due to less tourism, as well as in South Asia which experienced extended periods of lockdown. Europe was also negatively impacted by lockdowns, with the near-closure of the French cosmetic industry and luxury shopping channels for several weeks during the second quarter. By contrast, sales in North America remained robust throughout the year and Latin America also improved in the second half year.

Sales declined by 1.8% and adjusted operating profit by 15.3%, both in constant currency. The profit reduction reflected a sales price/mix decline of 5%, reflecting the weaker business mix, while volume was just 1% lower and acquisitions added 4%. In reported currency, sales were 1.9% lower at £475.9m (2019: £485.2m) and adjusted operating profit was £136.5m (2019: £162.1m). Return on sales reduced to 28.7% (2019: 33.4%). This lower profitability reflected the adverse mix effect, an increased share of the ECO plant loss and the diluting effect of the Iberchem acquisition. IFRS operating profit was £123.0m (2019: £158.2m).

Excluding the Iberchem acquisition, underlying sales in Personal Care were 6% lower than prior year. Sales in Beauty Formulation, with its portfolio of heritage ingredients, declined by less than 5%. Sales in Beauty Actives and Beauty Effects were each down by around 10%, with Beauty Effects impacted through its exposure to social and travel categories, such as sun protection and colour cosmetics, and Beauty Actives by the disruption to consumer distribution channels for prestige products, particularly in France and North Asia, where consumer brands were more impacted by

store closures, having less well developed on-line presence.

Our performance since lockdowns began has been consistent with broader published consumer sales data for Personal Care and Beauty, which reported declines of 3% in the US and 8% in Europe. During the year, our sales reached a low in May, down almost 20% on the prior year, but then enjoyed month-on-month recovery, with underlying fourth quarter sales encouragingly returning to prior year levels and a relative improvement in Beauty Actives and Beauty Effects.

'Strengthen to Grow' strategy

The drivers behind Personal Care's 'Strengthen to Grow' strategy remain unchanged – the continued rise in disposable income especially in emerging markets, coupled with a desire for improved wellbeing, an ageing population, greater use of digitalisation, continued market fragmentation amongst our customers and accelerating demand for sustainable consumer products. As the leading innovator in our sector, we are well placed to capitalise on these trends through our presence in every major market, strong innovation pipeline and sector-leading margin.

In Personal Care our strategy is to:

- Continue to scale our industry-leading Beauty Actives business which creates our most valuable claims-based skincare ingredients. Beauty Actives has continued its industry-leading innovation, expanding in biotechnology to create greener active ingredients. 2020 saw the launch of Synchrolife™ from Sederma, which counteracts the harmful effects of digital pollution, the development of Silverfree™, a biologically active ingredient to combat the greying of hair, and expansion of botanical ingredients from Crodarom. With its sales more weighted towards 'masstige' markets and toiletries, Crodarom continued to grow in 2020 and we are developing growth plans for Asia and market adjacencies. We have recently agreed to acquire botanicals specialist Alban Muller to expand our portfolio of natural active ingredients for a total consideration of €25m;
- Broaden the product portfolio in Beauty Effects, which offers similar growth and innovation potential to Beauty Actives, through organic innovation and partnerships. Despite its exposure to 'going out' products, Beauty Effects delivered new product

launches in 2020, increasing NPP to 80% of sales and meeting consumers' sustainability and lifestyle needs. New products included Keramatch™ V, a vegan alternative to keratin to improve damaged hair; and

- Continue to reinvent Beauty Formulation, through greater product differentiation and unmatched formulation expertise for our customers. 2020 saw our first waterless formulations and new opportunities for our ECO range of bio-based ingredients.

As we broaden our Consumer Care strategy, we are targeting enhanced top-line growth through:

- The acquisition of Iberchem, a strong regional player in mid-sized and smaller customers. This accesses a new high-growth adjacency and creates a 'one-stop-shop' for those customers, combining Croda's critical ingredients with Iberchem's on-trend fragrances in stable formulations. With over 50% of its sales in Africa and Asia, including 25% in China, Iberchem has a strong emerging market presence, providing significant opportunities for revenue synergies as we leverage the respective Croda and Iberchem customer networks. We will further differentiate Iberchem's position by driving a transition to more sustainable fragrance materials; and
- The integration of Croda's Home Care business, which is expected to continue to grow from a strong 2020 performance, driven by greater hygiene demand, our ECO household cleaners, and our innovative fabric conditioner protein technology. This won a 'Brilliance' award from Unilever as part of its Clean Future programme to replace fossil-based ingredients in its home care products.

This strategy is supported by a robust innovation pipeline. NPP products represented 41% (2019: 43%) of 2020 sector sales, the slight decline reflecting the business mix impact. To respond to growing consumer demand for sustainable ingredients and the 'clean beauty' trend, where consumers want to know what is in the products they use, as well as how well they perform, we are developing our ingredient transparency platform and helping our customers deliver their sustainability objectives. Croda's R&D investment and capital investment have established our leadership in helping customers move away from traditional petrochemical ingredients. This is complemented by 36 Open Innovation projects with partners; these include natural cellulose powders for skin texture application produced from sustainably harvested pulp, and first sales of innovative metal oxides for sun protection.

We are also investing in digital to meet customer needs more quickly and effectively. 2020 saw a focus on customer webinars, roll out of Live Chat globally and the launch of a locally hosted and designed website for Chinese customers resulting in a 350% increase in website traffic in China.



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Guillaume Audy
Director of Sustainability
at Iberchem

Iberchem acquisition: stepping into the fragrance and flavours market

In November 2020, we announced our acquisition of Iberchem, an international fragrances and flavours business headquartered in Spain. The deal represents the largest acquisition in our long history and a well-timed step into this strongly aligned market.

At the crossroads of science and creativity, Iberchem brings a new range of fragrance and flavour products to our portfolio, creating a ‘one-stop-shop’ for personal care and home care customers. An agile and fast-growing company, Iberchem generates over 80% of its revenue in emerging markets and has delivered a steady double-digit growth track record of more than twice the average of its sector.

Iberchem and Croda management teams have known each other for many years and there is a great level of commitment and understanding between both teams. When Iberchem began a search for a long-term partner that would preserve the identity of the company,

while supporting growth ambitions over the long term, Croda was a perfect fit. Iberchem will also benefit from Croda’s leadership position in sustainability, transitioning its raw material portfolio, a potential differentiator in the market.

Fragrances and flavours embody very well Croda’s Purpose of using Smart science to improve lives™. As sensory considerations become more important to consumers, fragrances have been reported as the primary purchase driver in various personal care and household products. They are also an emotional trigger with the power to boost wellbeing.

Guillaume Audy, newly appointed Director of Sustainability at Iberchem, said “The Croda sustainability Commitment to become Climate, Land and People Positive by 2030 was a key consideration in this acquisition. We both share a drive to advance the sustainability of practices in this sector as well as improving people practices more widely.”

An encouraging starting point on sustainability

- 100% of the water used in the Iberchem production plant in Murcia, Spain, is recycled by an Authorised Waste Management Company.
- In November 2020, a photovoltaic system was installed that will avoid the emission of 171.74 tonnes of CO₂ annually.
- In its commitment to protecting the health and safety of its employees, Iberchem’s head office received ISO 45001 certification in 2020. This is a first step in our ambition to certify each of the Iberchem production centres.