Croda International Plc

Results for the six months ended 30 June 2024

Call transcript

Key:
Steve Foots – Group Chief Executive
Anthony Fitzpatrick – Interim Chief Financial Officer
David Bishop – Director of Investor Relations

Steve Foots, Group Chief Executive
Hello and welcome to this presentation on our results for the first half of 2024. With a focus on relentless innovation at the heart of Croda's business model, I'm pre-recording this in the R&D centre at our head office in Yorkshire. As a chemist by background, I like to come into our labs regularly, although it has been many years since I was last let loose at a bench.

In terms of the agenda, I will start with an overview of our performance and the progress we are seeing both from a macro and Croda specific perspective. Anthony Fitzpatrick, our interim CFO, will then run through our financial results in detail before I come back to talk about how we are continuing to strengthen the business for a future that we are confident will be even stronger than before.

Ok, let me start with the results themselves and highlight the key takeaways that underpin our confidence as we emerge from what has been a tough 18 months. First, our overall performance was in-line with expectations at the beginning of the year.

Revenues were down 7% but with sales improving sequentially versus the second half of 2023. On the top right, you see a breakdown of that sequential improvement. Consumer Care was stronger than anticipated, growing sales at 9% versus the second half of last year with good volume growth across all regions and more stable market conditions. Life Sciences was weaker than expected with continued destocking in Consumer Health and Crop, but the core Pharma business, excluding CV19 lipids, continued to grow, increasing sales by 3% vs H2 last year. Industrial Specialities also improved with sales up 21% sequentially.

Bottom left, sales of innovative products across the business grew to record levels. NPP increased to 36% of total sales, with an especially good result in Consumer Care where NPP sales grew 11% on a constant currency basis. Bottom right, we've seen a sequential recovery in our operating margin which was 1.6 percentage points higher than the second half of 2023 ex Covid. That reflects the positive impact of both higher sales volumes and better capacity utilisation as well as ongoing price discipline and robust cost control across the business. We have applied a laser like focus to costs, nothing knee jerk, but we are doing much better at controlling what we can control.

And then finally, free cashflow was very strong, up 69% in the half supported by a working capital inflow. And our balance sheet strength has been sustained with leverage at 1.4x, well within our targeted range. So encouraging progress across the group and we are starting to see the benefits of steps taken over the last few years.

Building on that point, if I compare Croda today to what it looked like in 2019, the change is very significant. Pre-covid, whilst Croda was generating mid-single digit, year-on-year growth, we were also exposed to a number of lower-growth and cyclical markets. Our acquisition of Iberchem and even more so Avanti, as well as the post-pandemic boom in demand, helped to support exceptional growth through ’21 and ’22, as illustrated at the bottom of the slide. That gave us the opportunity to successfully divest the majority of our industrial businesses and use the proceeds to support a period of significant investment. We’ve transformed the quality of our portfolio and expanded the global reach of our business, that is beginning to come through at the top line and the bottom line will follow.

In addition to that, we have also taken several learnings from the recent trading environment and strengthened the business further with a number of self-help initiatives. Firstly, due to significant demand, relationships with customers had become more transactional reflecting our focus on firefighting supply issues. We’ve now simplified our organisational structure, moving accountability and decision-making closer to customers to develop even deeper relationships with them based on our technical expertise. Our impressive NPS scores indicate the progress we’ve made.

Secondly, in Beauty Care we were seeing a dip in innovation as customers focused more on marketing existing brands rather than new product development. We have tackled this by increasing local innovation in country and by prioritising R&D investment in faster growth markets such as China, India, Brazil. The increase in NPP sales and growth with local and regional customers demonstrates the impact that this is starting to have.

And thirdly, rapid destocking resulted in strong competition in the bottom of our portfolio where we are less differentiated, eroding volumes. We’ve now adopted a more flexible pricing policy for ringfenced customer/product combinations, carefully monitoring new performance metrics so we balance price with volume. We are seeing the positive effects of this coming through already in industrial Specialties and Beauty Care where volumes are up significantly and we are regaining share.

So whilst 2023 and to a lesser extent 2024 have seen our end-markets resetting, Croda is now reshaped and repositioned. We are a stronger business than before, more aligned to the megatrends driving growth, closer to our customers, more innovative and more efficient. That bodes very well for the future.

As you can see on this slide, despite volatility not seen since 2008 with significant raw material inflation and subsequent deflation, and the unprecedented fluctuations in sales volumes, we’ve remained disciplined on price, and the margin we make in our sales prices on raw materials has remained high and stable.

Top right, relentless innovation, very much the lifeblood of Croda’s business, has continued, with NPP growing as a proportion of total sales in the last year. We filed more than 50 patents in the first half of this year, an acceleration on the 2023 rate, taking the Group to more than 1,600 patents today.

And bottom left, we carefully balance investment with capital discipline with core capex as a percentage of sales staying fairly consistent over the last 6 years. As additional investment to support future growth in our Pharma business comes online, we expect overall capex to trend downwards from 2026 onwards. And finally, cash conversion has always been very strong and consistent for Croda and we expect it to remain so going forwards.

Turning to our thoughts on the macro environment. In Consumer Care, based on what we can see, customer inventories are now at more normal levels and destocking is at an end. That is supporting more stable demand, demonstrated by the sales growth that we have seen in the first half year. What’s interesting is that it is local and regional customers who are driving this growth, signs of a shift in the Consumer Care industry. These businesses are generally more innovative and faster to market with high quality and competitively priced products. We pre-empted that shift, expanding our regional footprint and investing in R&D

facilities close to customers, particularly in Asia and Latam, which has put us in a strong position to win from this trend.

In Crop, whilst customer inventory data is mixed, the industry has also been hampered by volatile weather conditions and lower commodity prices. Conversations with customers suggest that there are no signs of an immediate recovery, but our job is to continue to innovate irrespective of the weaker demand. And finally, Pharma, where we've experienced some headwinds but have also seen both sequential sales growth both in H1 vs H2 ex covid lipids, and in Q2 vs Q1. Whilst the demand environment hasn't fully recovered, we are feeling more positive than we have previously, not least the medium-term opportunity for significant growth.

So, bringing that all together and looking at Croda's portfolio today, it is very well positioned for the future, reflecting both the actions we've taken over recent years and what we are doing today, which I will come onto.

In Consumer Care, our Beauty Actives business is a market leader in peptides and biotech ingredients, areas that are shaping the industry now and will do so long into the future. We are very excited about the potential of biotech-derived ceramides that we added to the portfolio last year. In Beauty Care, our innovation is critical for skin, hair and sun care products, and as the trend to sustainable ingredients grows, our formulation ingredients are increasingly in demand. The F&F business is doing what we thought it would, growing quicker than tier one peers, and there is a lot more growth to come in Home Care with our fabric care biopolymers and ECO range.

Our Pharma business remains the most exciting part of our future growth story, supported by the market leading positions we have established across three critical technology platforms. And our focus on innovation and sustainability will enable us to lead the way in Crop and Seed. As I've said already, all of these businesses have excellent alignment with the technology trends that will underpin future growth in our markets. So, whilst the macro environment remains choppy, we are continuing to apply our strategy, further strengthening the business to support progress in the near-term and to set us up for the next phase of growth.

I am going to come back to the progress that we have made against the near-term priorities we talked to you about in February, set out on this slide. But first, over to Fitz for a detailed review of the numbers.

Anthony Fitzpatrick, Interim Chief Financial Officer
Many thanks Steve. So, as you've heard, our first half performance was very much in line with expectations. Overall, sales of £816 million declined by 7% on a reported basis, with adjusted operating profit down 23% to £136 million. The operating margin reduced by 3.4 percentage points to 16.6% but improved versus the second half of last year ex covid lipids. Profit before tax of £127 million was down by 27%, including a £6.5 million headwind from currency translation. Profit before tax at constant currency was £134m.

We have held the interim dividend flat at 47 pence despite lower earnings, reflecting our confidence in the longer-term opportunities and the strong cash performance, with free cash flow of £123m up 69%.

Bridging from adjusted to IFRS profit before tax, the exceptional charge of £2.4 million is ongoing restructuring costs associated with the new operating model launched at the start of the year. There was also a small increase in amortisation of acquired intangibles to £19 million, following the acquisition of Solus Biotech in July 2023.

Turning to the group sales bridge and moving from left to right on the chart. Group volumes were broadly flat, with volumes in Consumer Care up 14%, while volumes in Life Sciences were down by 17%, principally in Crop Protection. Raw material prices ended the half approximately 4 percent lower than the start of 2024, adding to the 12% decline seen through 2023. This has enabled us to selectively reduce prices, contributing to a 5% decline in price/mix. The acquisition of Solus Biotech added 1% to sales, resulting in a constant currency sales decline of 4%. Currency translation was a 3% headwind in the first half, leading to a reported sales decline of 7%.

Now let's look at divisional performance. Consumer Care delivered an encouraging performance in the first half, with sales up 3% versus the prior year and up 9% versus the second half of last year.

Beauty Actives delivered sales growth of 9%, with an encouraging performance in Asia, where the strength of our relationships with local and regional customers is driving growth. In Beauty Care, sales were down 6% but were up 9% versus the second half of last year, as we saw a return to more stable demand, and North America regained market share. Home Care and F&F delivered double digit sales growth. Our F&F business continues to grow ahead of the market, reflecting its niche positioning with local and regional customers in faster growing markets.

Demand for innovative ingredients, as well as ingredients differentiated by sustainability remains strong, with NPP sales growing by 11% at constant currency and NPP sales increasing to 42% of total sales in Consumer Care. Moving to margins, the operating margin of 17.6% was 3.3 percentage points below the prior year but was 2.5 points above the second half of last year, supported by improving sales volumes.

Performance in Life Sciences was weaker with sales down 19%, principally reflecting the strength of the performance in Crop Protection in the first quarter of 2023 before destocking began. Excluding the £48 million of Covid lipids that were shipped in the fourth quarter of 2023, sales were down 2% compared with the second half of last year.

Pharma sales were down 11% versus the prior year, with some of the challenges that impacted health care markets in 2023, including Covid-19 normalisation and destocking in consumer health, continuing into the first half of this year. Despite this, sales in our strategic focus areas, such as lipids, and delivery systems for Protein-based drugs continued to grow, and ex covid Pharma sales were higher both compared to the second half of last year, and in the second quarter compared with the first.

Sales in Crop Protection were down 33% with a prolonged period of destocking and lower commodity prices. Sales were also down by 10% in Seed Enhancement, a seasonally second half weighted business which we expect to have a better second half.

NPP as a proportion of total sales increased to 33%, with our strategic focus areas in Pharma growing and a lower proportion of Crop Protection sales. And operating margin was 18.3%, with the impact of lower volumes in Crop Protection partially offset by careful cost control.

Turning next to Industrial Specialties. Whilst this business isn't a strategic priority, it plays an important role in our operations, contributing to the efficiency of our shared manufacturing model, with the opportunity to leverage core technologies in high-value industrial applications.

Sales in the first half were down 17% against the prior year but were up 21% compared with the second half of last year, as industrial demand fell through 2023 before starting to recover in early 2024. Operating margins of 8.0% were 6.7 percentage points above the second half of last year, with higher volumes and improving mix benefitting profitability.

Moving onto the next slide. On the left we are bridging the operating margin from the first half of 2023 to the first half of 2024. You can see the margin fell by 3.4 percentage points, from 20.0% to 16.6%. Volume leverage was broadly neutral, while price/mix was a 2-percentage point headwind to the operating margin. Importantly, on a business-by-business basis, 1.9 percentage points of that negative impact on margin came from the significant reset in Crop Protection sales and profit contribution. Variable remuneration was a further one percentage point headwind.

And on the right, we are bridging from the second half of 2023 to the first half of 2024. Adjusting the second half margin in 2023 to remove the 3-percentage point benefit from the high margin Covid-19 lipids shipped in that period gives a base of 15%. With group volumes improving versus the second half of last year, volume leverage was a five-point tailwind to the operating margin. Price/mix was a 2-point headwind with variable remuneration reducing the margin by a further one point. Overall, the margin was a little stronger than we anticipated, benefitting from careful cost control.

Turning to cash flow, first half performance was encouraging, with cash from operations increasing despite lower profits, due to a £44 million working capital inflow. This reflects the payment for Covid-19 lipids which were shipped in the fourth quarter of last year, with disciplined working capital management enabling a modest inventory build in the first half, without offsetting this benefit.

Capital expenditure in the first half was £70 million, broadly in line with our full year guidance for £150 million, including the Pharma expansion programme. Overall, free cash flow of £123m was up 69%. After accounting for the dividend payment and other cash movements, net cash flow was positive £28m, with net debt reducing to £508 million.

This net debt position translates to a conservative leverage ratio of 1.4 times, well within our guidance range of 1 to 2 times EBITDA. Our capital allocation policy remains unchanged and following the significant portfolio transition in recent years, we are focused on delivering returns from recent investments. I will now hand back to Steve.

Steve Foots, Group Chief Executive
Many thanks Fitz. I want to spend a few minutes talking about our strategy in more detail and what we are doing to position Croda for a strong future. This slide is one that you will have seen from us before and it illustrates how everything flows from the key technology trends highlighted here on the left. And together with the learnings and actions we've taken to strengthen the business that I touched on earlier, on the right-hand side, we've continued to focus on a clear set of near-term priorities which I will go through now.

So, I am actually in one of our Consumer Care labs, part of a large network of local R&D labs which help ensure our innovation is tailored to local trends. It's also where I started my career with Croda nearly 35 years ago.

Beauty Care is the largest business in Consumer Care and has seen the greatest volatility. Our strategy here is to accelerate innovation whilst managing volumes at the bottom of the portfolio where there is less differentiation, to ensure consistent plant utilisation. This slide highlights some of the leading indicators that show our progress. By localising our approach, we've pushed innovation to record levels in Consumer Care, and that includes in Beauty Care where new and protected products grew by 1.5 percentage points as a proportion of total sales. We are also seeing a marked increase in innovation projects with customers, benefitting from localising our approach.

Customers are looking for ways to be more sustainable across all areas. We're responding to that by providing carbon footprint data on our products, with 80% of our Beauty Care portfolio now covered. We are also expanding our eco range, where sales increased by 34% in the half, reflecting strong demand from customers in both Beauty Care and Home Care.

As I mentioned earlier, decision-making is now closer to customers and we've implemented a more flexible pricing policy for defined customer/product combinations in the less differentiated part of Beauty Care. This is enabling us to capture lost share in the US where we've regained over 40% of the sales volumes we lost because we weren't able to meet all of the demand for certain ingredients at the peak of restocking. And better sales volumes are helping to improve capacity utilisation, averaging 65% in H1 across our shared manufacturing sites, compared to 50-55% at the end of last year.

I mentioned earlier that we are seeing significant change in the Beauty market, driven by rise of local and regional customers and their increasing appetite for innovation. The left-hand column shows you that while customers large and small have been increasing new product launches over the last 10 years, local and regional share has grown very significantly in both the skin and hair care markets. And that is reflected in our own sales data at the bottom, with 78% of Consumer Care sales coming from local and regional customers in the first half versus 72% in 2020.

And moving to the middle column, by investing in R&D across our fastest growing markets, we are enhancing our proximity to customers and helping regional customers reduce time to market and respond to local needs. The best example of that in action is China, where Chinese brands such as Kans and Proya, are now ranking higher than multinational brands, again another statistic that highlights the change that we are seeing, a change that we have been positioning ourselves for over the last few years. Our sales to local and regional customers grew by 28% in H1 compared with our average globally of 9%.

Our F&F business is another good example of where our exposure to local and regional customers and developing markets is enabling us to grow well ahead of our peers. Over 95% of our sales are local and regional, whilst 80% of revenues are outside Europe and the US. The bar chart in the middle of the slide illustrates how we have consistently outperformed tier one competitors. We are investing to support continued growth with new innovation centres in Grasse in the south of France, the world capital of fine fragrances, and also in Dubai, a critical hub for the Middle East.

I'm now in one of our Crop Protection laboratories to talk about two examples of recent innovations. Despite the dominance that a handful of large players have in the Crop market, we are seeing a greater proportion of our sales going to local and regional customers here too, with the balance shifting in their favour for the first time ever. Again, we are well positioned to respond to this trend whilst continuing to work closely with their global peers.

As you can see from the middle column, we are doing this very successfully across Asia where our drift reduction technology specially formulated for drone applications is now being rolled out across the region following an excellent response from customers in China.
And in our seed business, sales of novel microplastic-free seed coatings grew strongly reflecting Croda's market-leading position and the EU's decision to ban the use of microplastics in seed coatings by 2028. Our innovative MPF coatings are now being sold across Europe, North America and Latin America, where they are also in final test stages with the major seed companies.

Staying on the move, I've come to one of our Pharma labs, part of a growing network of innovation centres across the world, working to bring new drug delivery systems to the market. We are making further progress building industry-leading positions in high-growth markets, with customer pipelines across biologics, vaccines and nucleic acid-based drugs continuing to expand. The growth in industry drug pipelines, both clinical as well as preclinical, is impressive as you can see on the left and we are well exposed to that growth due to our market position and technology portfolio.

Years of investment to establish strong competitive positions in critical areas such as specialty excipients, adjuvants for next generation therapeutic vaccines and more than 2,000 lipids for new mRNA drugs, is beginning to pay-off. Accelerating medium-term growth will be driven by the commercialisation of new mRNA vaccines for infectious diseases and oncology where we are working closely with 'big pharma' companies driving this development. And it will be driven by increasing sales of new delivery systems that we are bringing to market. For example, our newly launched proprietary lipid-based adjuvants are now sampled into 80 projects and are expected to contribute meaningful sales growth in the second half year as a customer's clinical trials progress towards regulatory drug submission.

I want to finish by touching on what we have been doing to enhance efficiency and control costs. Having acquired several businesses in recent years, we're integrating them deeper into the Croda organisation. This includes driving growth synergies, with the Croda brand opening the door for Iberchem with multinational customers; great collaboration between our teams at Avanti in Alabama and in Denmark to launch the new lipid adjuvants I talked about; and leveraging our global selling network to fast grow ceramides for Solus.

We have also found ways to drive efficiencies by better sharing functional support and consolidating sites or offices such as for our Seed Enhancement business in China. The new organisational structure is getting us closer to customers and is on-track to deliver at least £9m of savings from 2025 that we indicated at the start of this year. Broader operational improvements are also helping to drive a big increase in our NPS score; customers are finding us even easier to do business with.

Our robust cost control is expected to benefit Group operating margin by about half a percentage point this year compared with our initial expectations. And we will continue to scrutinise spend across the business going further if we need to.

Ok, wrapping things up with our outlook for the rest of the year. We're encouraged by the progress we've seen during the first half in Consumer Care, our strategic Pharma platforms and IS, helped by more stable conditions. The sequential improvement in the ex-Covid operating margin reflects higher sales volumes, price discipline and robust cost control. As I mentioned earlier, Crop Protection and Consumer Health have remained weak and without any signs of an immediate recovery in Crop Protection, we now expect adjusted PBT to be between £260m and £280m in constant currency.

So, in summary, it's been a good first half in many respects, highlighted by sequential sales growth, record levels of innovation, and an improved operating margin in most areas as well as strong free cashflow. We are emerging from a tough environment as a very different looking business, more focused on and more exposed to fast growth markets and we are increasingly ready for another period of exciting, innovation-led growth.

David Bishop, Director of Investor Relations
Good morning, everybody, and welcome to our live Q&A. As a reminder, if you've joined via the webcast, please type your question into the appropriate box on the webcast player, and I'll read it out on your behalf. For analysts on Zoom, please raise your hand, and you'll be invited to unmute and put your video live and go ahead and ask your question. And as a reminder, to allow everybody to ask a question, you're limited to one question plus a related

supplementary. The first question comes from Matthew Yates at Bank of America. Matthew, please go ahead, unmute and ask your question.

Matthew Yates, Bank of America
I'd like to ask about the margin in consumer. So, you had a nice 14 percent rebound in volumes, but profits down about 13%. If my math is right, essentially, why the lack of operating leverage in this business with margins still below 18 percent. Steve, you talked about gross margins being okay, so I'm guessing the pricing is really just reflecting the savings you've had on the raw materials. So, why are we not seeing that the volume growth translated to higher margins? Is that because the volumes are coming in diluted businesses and you've still got, frankly, I would say a pretty poor performance in beauty care? Or are the results being distorted by this whole shared site model that we talked about last year with the other parts of the portfolio still lagging in volumes?

Steve Foots, Group Chief Executive
Yeah, Matthew, two points to that, I would say. I mean, firstly, you know, we finished the year last year, if you remember, around about 50 to 55 percent utilisation rate. We finished the second quarter, end of the first half at about 65 percent utilisation. So, you know, we're making some operating leverage improvement. But as you say, the other thing is all around this shared service site model where we've got 11 multi-purpose sites. And of course, consumer care is taking the lion's share of costs in some of these sites because crop hasn't come back yet.

I think once you see crop come back, then obviously the margins naturally improve in crop. But they also improve in consumer. So, you've got that at play. We use those as excuses in the business for the teams, but actually there's a reality there that actually consumer is performing probably better and had crop been better in the first half, you would see better margin performance in consumer.

So, there's that dynamic. But I think the other point I would make is look, you saw in one of those charts our gross margin, which is a very important indicator for us for the quality of business going in the sites. It's very high and it's stable. And that's through this last three-year period where you've seen massive raw material inflation and then deflation, something we haven't seen before since 2008. You can't see that volatility in the margin and that's because we're very disciplined around that. So, to answer your question, you would have seen more momentum in margin in consumer had crop seen bigger volume growth in the first half.

Matthew Yates, Bank of America
And maybe to follow up, Steve, if I can on Beauty Care. You're saying that NPP is at record levels, or very, very good levels. Why, therefore, is the business still contracting in volumes? Is that the market or is that still trying to regain business that you lost in the past?

Steve Foots, Group Chief Executive
Yeah, there's probably two answers to that. It's not contracting. I mean, volumes are ahead quite significantly this year against last year. And if you look at the shape of Consumer Care we're up 14 percent on volume and we're very pleased with that. We're down about 8.5 percent on price and mix. And actually, when you think about that 8.5 percent price/mix, it's built around a 16 percent raw material reduction over the last 18 months. A third of our costs are in raw materials, so it's broadly about right in terms of keeping the high, stable gross margins fixed and giving back on price at the tail of the business.

The other point to make on Beauty Care is we're regaining business in North America from the Atlas Point plant that was out of action, but more importantly, and you're seeing this across many of our markets, this big move to local and regional customers is significant.

We are picking up innovation growth in a lot of our fastest growth markets. So, examples in the pack in China, but we could have also given you examples in India, Brazil and North America, where these dynamo companies are producing great products, are very inventive, they're fast to market with high quality products, and they're very good in terms of cost control with their pricing. We're picking up more of our basket in consumer into local and regional. But Beauty Care is doing well. We're very happy with the volume growth and it bodes well for the future.

And I think the other point on Beauty Care, just while we're on it, is the tail of the business. That's one thing we've learned in the pandemic. The tail of that business is about 20 percent as you remember, it's about £80 million of revenue. We have to be much more flexible with our pricing there and we want to keep our volumes whole. We are doing that. We're doing that well. But whilst we're doing that, the other 80 percent of that business, we're turbocharging for innovation growth precisely to what we just talked about, with a lot of local and regional customers picking that innovation up. So, you know, beauty care in a good place. And the rest of the portfolio is as well. And just on the innovation point, because I know it'll probably come up later, the four businesses are all growing in Consumer Care with NPP. It's not just one or two, they're all growing.

Matthew Yates, Bank of America
Thanks for the clarification on the pricing.

David Bishop, Director of Investor Relations
The next question comes from Charles Eden at UBS. Hi, Charles.

Charles Eden, UBS
Morning everyone. Hope you're well. Can I dig into the Life Sciences margin in the first half? I think it was 18.3%. So down another roughly 300 basis points versus the second half of last year when you remove Covid. I'm just trying to understand the explanation of the lack of fixed cost absorption from Ag. Given the shared manufacturing model has Ag really got that much worse the second half of last year? I'm just struggling to bridge this a little bit sequentially.

Can you talk maybe a little bit about the underlying margins in pharma and seed today? I guess maybe I'll ask it this way. Is it as simple as if crop volumes get back to 2021 levels in 2025, then the margin of this division can get back to the high 20s EBIT margin.

And then linked to this, is there a way you can get out of this business because it feels to me like crop is ultimately the equivalent of vitamins at DSM Firmenich. They took the decision to exit vitamins and shrink the group to reduce volatility and ultimately were rewarded for that decision. Is that something you would contemplate doing?

Steve Foots, Group Chief Executive
Well, let me start with crop and the wider view of crop. And then I'll pass to David on the margin side of things. I mean, the way we look at crop is for 10 to 12 years, it's been the most consistent business in our portfolio. And what I mean by that is it's always delivered about mid-single digit revenue growth.

There's clearly volatility during any year because of weather, climatic issues, but, you know, we're in number one global positions with our delivery systems. So, what we've experienced in context in the last three or four years has been this rapid boom and reset. And a lot of that is effectively reset back to the pre COVID levels. Clearly what we want to try and understand more if there has been any structural changes and if the innovation level is still as high as before. And certainly, from an innovation point of view, we're still very happy with the innovation that we have within the crop market.

I think it's just an unusual occurrence where that industry, if you call it an industry, is resetting, and we’ve seen quite significant volume dynamics, which are probably more pronounced than we've seen in any of our other markets. So, in 2021 and 2022, our sales growth was very significant. We were up 40 to 50 percent and anything that goes up very quickly is coming down very quickly as well. So, what you're seeing in that business is more the end of a reset, it's just taking a little bit longer. So, I think we wouldn't want to make any decisions around crop as a consequence of a turbulent period. What we want to see is as the demand comes back, making sure that demand is what we expect it to be.

I think on the margin, I'll lead into the margin with David. I mean a lot of that is around what you saw in the second half and what you saw broadly in quarter two as well last year, which was three quarters of fairly consistent trading in crop all weak.

We've seen another two quarters effectively of that in the first half. Quarter one last year, I know it's not a sequential point, but quarter one last year was very strong. So, when you look at half one versus half one last year, you obviously have a stronger comparator there. But David can talk about sequentials in crop and also in pharma.

David Bishop, Director of Investor Relations
Most of the negative impact on the margin is non-operational. So, actually net volume and price mix is positive in H1 24 versus H2 23. So, the main impact that you've alluded to already Charles is the fact that we're losing the £48 million pounds of COVID lipids with around about £30 million pounds of associated operating profit. That's by far the biggest impact there. And then we've also got a small return of a variable remuneration charge, which was negative last year. And we allocate to each of the businesses. So nothing strange in the margin on a sequential basis. And as Steve said, if you look at the individual business units, crop is suffering because of the lack of that volume leverage. And if we see some volume returning crop, then we see a benefit to the bottom line as well.

Charles Eden, UBS
Thanks. And just because you mentioned the annual bonus, if I can use that as my follow up, EBIT doesn't grow on an underlying basis, which I guess means ex COVID for this year, if the annual bonus is quite binary, would be zero again.

Could you confirm what the base number is for this? Is it sort of roughly 295? That was my calculation. And then perhaps you could set out how much of the £25 million provision for variable remuneration that the previous CFO referred to at the start of the year relates to the annual bonus and how much of this amount remains provisioned at the end of the half year?

Steve Foots, Group Chief Executive
Yeah, let me start and I'll pass to Fitz. We are still accruing for a bonus but not as big a bonus as we were at the start of the year. So that's still in the numbers in half one. You can look at that both ways. There's a bit of an insurance there for the second half. But we want to pay a bonus for the staff as well where we can. We want everybody to deliver in the second half and there's still a chance of a reasonable bonus. In terms of quantum, I'm going to pass to Fitz and Fitz can give you that detail.

Anthony Fitzpatrick, Interim Chief Financial Officer
Yeah, look, I think there's a couple of things in there. First, you're right. In 2023, there was no bonus accrual. And you can see that in some of the progress since the first half this year. We are still accruing on the basis that there is a payout, but it basically accrues on the basis of full year performance. So the 25 I think that was referred to assumes that we track where

we are currently. So, in the first half roughly half of that was accrued. What you don't have in your numbers though, is it's not just based on EBITDA. There's a cost for working capital and some other charges in there. So, it's not as straightforward as EBITDA of 295. It's a slightly lower number. Remember last year as well, we also had the lipids business in that calculation, which is not part of this year's calculation.

Charles Eden, UBS
Understood. Thank you.

David Bishop, Director of Investor Relations
Thanks Charles. The next question comes from Nicola Tang at Exane. Hi Nicola.

Nicola Tang, BNP Paribas Exane
Hi everyone. Thanks for taking the question. I guess I'll ask a follow up to Charles's question sticking to Life Sciences. I was wondering if you could help us a bit with the moving parts on top line for the second half of the year. You mentioned there was still some destocking in consumer health. Is that now done? Or could we see some more of that in the second half? Are you baking anything in, in terms of an improvement in crop in the second half? And can you just remind us a bit in terms of the seed seasonality? And, you know, ultimately, what does that mean in terms of half on half margin performance in Life Sciences?

Steve Foots, Group Chief Executive
Yeah. Okay. Well, let me start with the revenue and I'll pass to David on margin. I mean, look, don't forget in the second half of last year, we're coming into some weak comparators. I think we would start with that. If you take the businesses, in the pharma business, we saw a sequential improvement half one versus half two. And we saw a sequential improvement quarter two to quarter one. And we saw consumer health starting to improve as well. And pharma actually has been okay. It's not growing at 9 to 10 percent in the first half, but it's been doing okay. So, you know, when we look at the second half, we're expecting that pharma business to grow well. And, you know, the evidence that we've got for that is the trends that we're seeing, the order intake that we're seeing, we're booking some new business as well, particularly on some of these proprietary lipids, which is built in. We feel confident that in pharma particularly that that trend's going in the right direction.

If you look at seed treatment, seed treatment is a quarter four business, it always has been. So, you always get modest trading through the first three quarters and then quarter four is where they make a lot of their profit. And all the indicators, with the microplastic free technology coming out and booked orders, is seed treatment will be fine. And when you look at crop, we're not expecting a huge amount of crop. We're still very cautious around crop and some very modest improvement probably year on year. Let's be honest, we've had five quarters now of weak trading in crop, so only modest improvement.

That's the sort of Life Sciences story. But the Consumer Care story is a positive one, so we don't need any sequential growth in consumer care in the second half to deliver on that guidance that's premised on just continued trends from the first half.

So, all those businesses are exiting quarter two as they entered and we expect that to continue. This growth in the local and regional is driving that extra stability there and our innovation is being picked up by them as well. So, we feel we feel comfortable in the round. And actually, when we get to the year-end, annualised, all of our businesses, with the exception of crop, should be in revenue terms ahead of last year. That's the intention. So, most of our businesses are in growth, moving to weaker comparators.

We just need crop to start to come back. And we'll update you on a regular basis, as we always do, to give you better indications of when that might happen.

Nicola Tang, BNP Paribas Exane
Thanks. I there's a second part of the question, which was margins in life sciences, in the second half.

Steve Foots, Group Chief Executive
Yeah. David, any comment on that?

David Bishop, Director of Investor Relations
Yeah. So, overall, relative to our guidance, we're feeling pretty comfortable about the margin performance in the half and what that means for the second half of the year. If you remember at a group level, we guided to margins being two to three percentage points down on full year 2023. And we're pretty confident that we should be at the upper end of that guidance range. So, at around 17 percent for the full year rather than 16%. And that would suggest some further margin progression at a group level from the 16 that we did in the first half year. That is broadly across consumer care and life sciences. So, still within that range that we guided to at the start of the year for the group margin, but with a bit of sequential progression in both consumer care and life sciences versus H1.

Nicola Tang, Exane BNP Paribas
Can I ask a follow up? There's another one. I was curious about the comments you're making that seems like there has been a step change in volumes amongst local and regional on the consumer care side. Can you explain a bit what might be driving that? Because it sounds like it's not just specifically China, it sounds like it's broader from a geographic point of view.

Steve Foots, Group Chief Executive
Yeah, I mean, particularly in consumer care, although you can start to see that in crop as well, but in consumer care, if you just look at that we've shown you some case studies in the pack and in the RNS. My take on that is if you remember in the capital markets day that we had on consumer care in 2022, we started talking about fragmented world and more and more innovation coming in country for the country.

If you remember those days, 71 to 72 percent of our consumer care sales were local and regional, 28 percent MNCs and we said we'll probably move to 80 percent because that's the relative growth rates we would expect from local and regional and MNCs and here we are, we're 78 percent now. So I think part of this is being fuelled by relatively difficult market conditions in some of those big countries, China's a good example, but I think I would say, the three or four things that we point to are these local and regional customers have got great innovation, high quality products, pricing the product a bit more effectively than the multinationals and they can move quicker.

So you see that in China where we're up 28 percent in local and regional, slightly down in MNCs, they're winning. Local and regional companies are growing market share, but they're winning market share away from some of the multinationals as well. And as I mentioned before, you can look at India, America, you can look at Brazil, some of the fastest growing markets in the world. You're seeing that trend everywhere and you probably shouldn't be surprised in part with that. But the multinationals will respond in their own way. And our business model is clearly there to make sure that we innovate with the multinationals as well as the local and regional. So it's not as though we're going to forget about the multinationals because they'll be back and they'll be back stronger.

And you can see that in F&F and you can actually see that in crop, if you saw on the slides, the first time that our Tier 2 and Tier 3 customers, when you add that together, is a bigger proportion than our Tier 1. So you're seeing this fragmentation and that's good for Croda, it de risks us going forward, it, it accelerates innovation and it allows us to pick up smaller and medium sized customers.

David Bishop, Director of Investor Relations
I'm just going to go to the questions from the webcast. We've got a question from Artem, which I think is for you, Steve. Any extra colour around trends in crop protection? What are your major customers saying?

Steve Foots, Group Chief Executive
There are probably three things I would point to. It's mixed around the big multinationals. You ask them all, they're all in different stages of de stocking or restocking and you can probably see that with the data that you pick up and certainly the data that we show you. I think that's the first thing. There are weather issues short term as well, which are challenging for people. And the other thing, which we shouldn't forget, probably the main thing for you to look at, our demand tends to be a function of the commodity food prices. So, if you look at wheat, corn and soy prices over 10 to 12 years, our business and the demand for our business tends to correlate very well with those prices.

No surprise that they've come off their tops, but actually when we look at the planting environment for later in the year, it's not bad. So there's still confidence with our customers that demand will still be reasonably healthy, but they're just working through this myriad of stocking issues. And I think the final point is most of our issues with restocking to destocking is around four or five customers because what we found in consumer last year, and we're finding with crop now, is that the multinationals are the ones that are sitting on the highest stock levels. David wants to make a point as well.

David Bishop, Director of Investor Relations
No, it's fine Steve. I think you've covered it. I was just going to go to Charlie Bentley who I think is dialling in by phone if I've identified you right. Yeah, Charlie from Jefferies, go ahead

Charlie Bentley, Jefferies
Great. Thanks very much. If I think about the second half, I think the first half multiplied by two, I get to kind of a couple percent above the bottom end of the guidance range. With utilisation rates exiting the quarter better, the whole should be better, you should have a second half weighted cost contribution, you talked about consumer improving, pharma improving, seed treatment a bit better, crop maybe not worse. So, all of those things would be positive, so I guess just how you are thinking about the updated guidance range, it would just be helpful to get some colour on that.

Steve Foots, Group Chief Executive
Yeah, we tend to look at it through the eyes of each of the businesses. I think I mentioned this earlier, you might have just joined the call, but not to try and repeat myself too much, consumer care doesn't need sequential improvement in the second half of the year. The trends that we're seeing evident in the first half, we just expect that to continue. So, we're not expecting any significant change there. We're expecting good improvement in pharma and seed treatment. There's good reason and we've got data to support that.

So really the question then is around cost control as well. There's some cost savings that have been built in from our project restructuring, so we've got all of that and then the question is around crop. We're scientists and we're engineers in this company and unless we can see a three-month trend in crop, then we won't call it out. So, because we're not seeing that we're going to be cautious on the second half for good reason. But we're not expecting any big change to crop in the second half.

And the reason for the change in the guidance is effectively two things. It's crop and there's a bit of FX in there as well. The rest of the businesses we're expecting to continue their improvement. From a macro point of view, I think I mentioned it's still choppy out there and we're not far away from getting through it all, but we just want to see crop come through first before we get a bit more confident with the life science story.

David Bishop, Director of Investor Relations
Thank you, Charlie.

Charlie Bentley, Jefferies
Sorry, you made a comment on the volumes in consumer care. I guess if I look at the stacked volumes, it looks like you're still 4 percent below where you were in 2021. And I guess if I look at the contribution from Iberchem, that's probably 10 percentage points. So, I still have you down maybe teens in the core consumer care business. Is that fair? And then just trying to think about what the kind of upside on volume, like fully recovered volumes in consumer care is?

Steve Foots, Group Chief Executive
Yeah, well, Matthew was first out with a question around that. And it's the same answer. Utilisation rates at 65 percent now and 50 to 55 percent end of last year. Improvements coming from the consumer business and from some of the industrial portfolio. But it needs to come from crop as well. And the margin performance in consumer care is good. But it's taking a bit of the cost allocation away from crop in those sites because that's not there. And we never really talk about that because we see that as an excuse.

But once crop comes back, obviously the utilisation rates benefit crop, but they will benefit the consumer business as well. So, I think for us what we want to see is just utilisation rates continue. And I think our organisational change, our focus, this big trend to local and regional innovation picking up, all of that feels like it's moving towards our strengths.

And we feel good about that. But you know, we're still dealing with the backdrop where not all the markets are in perfect shape. And so we don't want to get ahead of ourself for that reason.

David Bishop, Director of Investor Relations
Thank you, Charlie. Lisa, Morgan Stanley. Thanks for being patient. Please go ahead.

Lisa De Neve, Morgan Stanley
Hi, everyone. Thank you for taking my question. I would like to follow up on a question from Matthew Yates earlier, also on consumer care. So I wonder if you can share with us how the profitability in consumer care subsegments differs, if you could shed any light on that. And where do you see consumer care margins trending to over the mid-term? And what do you think the key building blocks to that will be or need to be for you to get there?

Steve Foots, Group Chief Executive
Yeah, our medium-term guidance hasn't changed. You know, we've always said when you take a step back, part of this portfolio change is all about trying to drive a different financial shape to consumer care. So pre the pandemic, we were growing at low to mid-single digits for the previous several years. And that was fine. But what we want to do is get more consistent, higher revenue growth in that business. With this big move to sustainable ingredients, the next five years look different and we're in ideal shape to drive the growth. And I think the big things there around this move back to mid-single digit revenue growth plus and then you've got this 25 percent margin target as well.

How do you get back to the 25%? Well short term it's around utilisation rates. The margins in the business look very good. We're not seeing any deterioration in the consumer care margins. It's all about growing in those fast-growing markets and getting all the businesses firing on all cylinders. But a lot will depend on getting there with the business mix. So F&F for example, is a lower margin than the average so it could be dilutive to margin, but you would see extra revenue.

So, I think a lot of that will play that out through through the course of the early part of next year and just showing you how we how we're thinking about getting back to those levels. But the building blocks are in place. You know, the markets are moving to where we thought they were going to move. The innovations in place. So we think we're in a good position to capitalise, but it's very difficult to give you some detailed answers around the next 12 to 18 months or so. And David, in terms of the margin, the question around second half?

David Bishop, Director of Investor Relations
Yeah, I mean, you know the margin profile in consumer care generally, so of the four business units, beauty actives has the highest operating margin, followed by beauty care. Then F&F where the margin performance is pretty good this year, but normally it's slightly below the tier one peers, and then home care is the lowest margin business in that portfolio as we've been investing behind the sustainable technology platforms and the strong growth that we're seeing. So nothing has particularly changed with that margin profile, but hopefully that gives you a better understanding of the various business units.

Lisa De Neve, Morgan Stanley
Thank you very much.

David Bishop, Director of Investor Relations
Thanks Lisa. Sebastian Bray at Barenberg. Hi, Sebastian.

Sebastian Bray, Berenberg
Hello. Good morning. Thank you for taking my questions. I have two please. The first is on the pricing environment in the excipients business of the pharma subsegment in the consumer part of your over-the-counter products, the simpler excipients in some other areas like capsules, I believe there has been incremental pressure on pricing, reflecting low volume environment. Is the pricing environment for product in this area tougher than it used to be. My second question is on Solus Biotech. How's the acquisition gone? Has the company been growing well since it was acquired? It looks as if, it looks as if the sales are distributed across both life sciences and personal care in a roughly 50/50 ratio. Is that right? Thank you.

Steve Foots, Group Chief Executive
Yeah, well, let's do Solus first and then we'll come back to the excipient's pricing. So Solus, I mean we've been very pleased with where it is, you know, it's had a year in Croda now and when we acquire technologies like this, the first year is what I call positioning, you know, they don't have a selling network or they didn't. Most of their sales were through distribution outside of Korea. So, of course, the first thing we do is we redirect that to our global selling network. And we've been doing that. The distributors have been sitting on reasonable levels of stock that you would expect, so we're running that down.

It's probably the most exciting acquisition we've done for quite some time and this is right in the heart of Croda, both the actives business for ceramides, but also phospholipids for Avanti. The leading indicators, the thousands of samples that were sending out, the commercial sales opportunities, are very significant. So, we expect sales to grow. It's years 2, 3, 4 and 5 where we should see significant sales growth across the territories and every sales team in most countries around the world can sell these products.

So, our positioning is good. And you know, with Sederma and Avanti, they're going to accelerate the innovation through their R&D basis. We're very pleased with that. It's a high margin business. It screens very well for our Actives portfolio and our Avanti portfolio. We know that positioning in year one was never going to move the dial but we expect that to change through the course of the next two or three years. I think your point on excipients and pricing, let me start and I'll play David in again.

Inevitably, there's been some pressure on it, but not because of increased competition per se. There is some extra competition, but when you come off the tops of raw materials and raw material pricing goes down 16 percent over the last 18 months, inevitably there's some price that you want to give back and our approach there is not too dissimilar to beauty care, where at the more competitive end of that portfolio, some of those are traditional products that have been with us for years, you have to be a bit more flexible with price.

So we're doing that. We think the majority of the consumer health issue is more stocking issues than pricing per se, but there is a little bit of pricing there. And Dave to provide more colour.

David Bishop, Director of Investor Relations
Yeah, it just really supports what you were saying, Steve. The price mix was negative by one percent in life sciences and broadly pharma was similar. Any negative price would have been in that consumer health part of pharma where there is some competition for the excipients that we provide into over-the-counter medicines.

Sebastian Bray, Berenberg
That's helpful. Thank you for taking my questions.

David Bishop, Director of Investor Relations
Thanks. Amy at Barclays, please.

Amy Lian, Barclays
Hi, thanks for taking my questions. Maybe just a follow up on the Solus biotech question. I see that on the EBIT line for consumer care, it seems to be a negative contribution. Is that related to what you just mentioned about the distributors having quite a lot of stock? And if not, can you give some more colour there? And then secondly on beauty compare some of the negative pricing there. I assume that's also still related having to maybe win back some of the lost volume from competitors. Is your market share in these businesses now back to where you want it to be?

Steve Foots, Group Chief Executive
Yeah. Good questions. I mean, the first one simply it's one-off hit on distributors, which we always take. We take that with most of our acquisitions. So that's the main headwind. It's a short term one off through the year. And then obviously, when you get the business back, we get them at higher revenues and higher margins for ourselves because we're managing that direct. So that will blend in through the course of next year. I think your wider point, what was your first question again?

Amy Lian, Barclays
Beauty care and market share loss.

Steve Foots, Group Chief Executive
Yeah, beauty care, market share. I mean, so the market share loss was really specific to North America where we took this plant offline in the end of 22.

On one of the slides, it's difficult to accurately work this out, but we've regained over 40 percent of that business. So, our strategy in beauty care has been nuanced post the pandemic in that undifferentiated area of 20 percent of the revenue, we want to be cost competitive and hold our own with market share there, you know, volumes essentially neutral. But we're expecting to regain our positions from where we were. There's still some work to do to get more of that back through the second half and next year. But while we're doing that, and that's with about 20 to 30 product/customer combinations, we’re disciplined on price then on the rest of the 80 percent. So, you know, we feel comfortable with that, we're not fully there yet, there's work to do, but we feel when we're on the right track in that respect.

David Bishop, Director of Investor Relations
So, Chetan Udeshi at J. P. Morgan.

Chetan Udeshi, JP Morgan
I had two questions. First, I'm a bit confused about H2 guide because if I look at your absolute revenue in Q2, it was actually lower than in Q1. And historically, your seasonality is always H2 lower than H1 in terms of earnings or PBT. It doesn't feel like you guys are expecting any recovery in H2, so why will the earnings be better than H1, which is not what you normally see in the business. So what is different this time? And the related question is just coming back to the utilisation that you mentioned, 65 percent at the moment. Is that across the group or is that just across consumer? Can you remind me where were you before this?

Let's say pre Covid, what is the normal utilisation that Croda used to have, say 2019, 2018, just to get a sense of how much do we need to see utilisation improve before we get anywhere close to the normalised margins?

Steve Foots, Group Chief Executive
Yeah, let me take the second question. I'll pass to David for the first question. Normally we're about 80%, maybe a little bit more than that and that's not on everything in the group. We call it 11 multi-purpose sites, which effectively represents about three quarters of our revenue, something like that. So, we want to see that increase further. And I think once you get through to 80 percent levels, we’re rebased again with margins and we would assume there is a normal mix on each of the factories. So, beauty care, industrial and crop tend to share the same and a bit of home care and a bit of the consumer health business as well. But in terms of phasing for the second half, I think David can say.

David Bishop, Director of Investor Relations
Yeah, as you've seen we've reported on the basis of H1 numbers, but given we provided a Q1 sales update, we've given you the quarterly breakdown as well. Sector by sector, industrial specialties and life sciences were slightly ahead in Q2 sequentially over Q1, and consumer care was slightly behind. The impact there is it's just a good January. So we weren't alone in seeing an obvious restock in January, the important point in consumer care is that April, May, June look broadly like February and March. And that's the assumptions on which we built the second half year. Steve's touched on this already, but effectively a bit of growth in H2 versus H1 in consumer care, but that's coming from the strong momentum in F&F and in home care which are growing well.

So, we feel comfortable about that as the basis of our assumptions for the second half. Then industrial specialties broadly flat on the top line, seen a good recovery and a commensurate improvement in margins there, with life sciences better for the reasons that we've outlined, mainly coming through in seed enhancement on a seasonally second half weighted business. And in pharma H1 was better than the second half of last year and Q2 was better than Q1.

David Bishop, Director of Investor Relations
Martin at HSBC.

Martin Evans, HSBC
Yeah, thanks David. A segue then again into consumer and the end markets in the second half and into next year because there's quite a lot of talk of customers trading down at the prestige end of the market.

Unilever referred to a slowdown in their beauty division, Sephora too. And I appreciate you've obviously got quite interesting comps in the second half off a low base, but equally, are you seeing a shift as consumers basically trade down? And then just related to that, slide seven, one of your responses to the difficult trading is more flexible pricing policy for certain customers. And I guess that's related. In other words, if there is a trade down in the consumer market, your response would be to cut your prices. Is that correct?

Steve Foots, Group Chief Executive
I mean, good questions, Martin. I mean, the first one is yes, we've seen that from some of the multinationals around trading down. I mean, our sense of it is, it's not general everywhere, it's specific to certain countries. So I think the two countries that we're probably seeing it the most in is China. And we're benefiting from our strategy there of picking up local and regional because they're winning there. And also in America, you're starting to see mass markets, particularly in America, a bit softer than they were in the first half. And I think that's probably what you're seeing from Unilever and others a bit more skewed to North America. You know our model is not just focused on multinationals. The one big message today is they are effectively 22 percent of our revenue in that business. So, we have to be a bit more price flexible. But again, it's in that beauty care area in that 20 percent area and we watch that all the time. But while we're doing that, we are growing our business with the differentiated products with the multinationals and others as well.

And I think the other point to make Martin is we may give a little bit to the multinationals which is inevitable at the tail, but our products, our margins in the local and regional customer base are good and are similar to the multinational. So, we're not seeing any margin attrition in the same ingredients that we supply into the smaller customers. So, you get that benefit. A lot of our focus in the second half is yes, there may be some softness in some markets, but we should be able to take advantage of that with our small and medium sized customers. So, for example, China, we're up 28 percent with the local and regionals. We're down a few percent in multinationals but net were ahead high single digits in China, and as a market it's been the toughest now for three or four years to what we've seen. So, we're winning with our model.

Martin Evans, HSBC
Thanks very clear.

David Bishop, Director of Investor Relations
Thanks Martin. Georgina Fraser at Goldman Sachs

Georgina Fraser, Goldman Sachs
Hi, thanks David and hi Steve. Hello. So my question is looking at profitability of the group. I think what we have learned over the last 18 months, and please say if you disagree, but there's probably more margin interdependency between the segments than we would have realised without the strange macro backdrop that we've had.

Is this any kind of risk to the group? Potential operating performance of each of the divisions. And is there anything that you can do to mitigate that risk going forwards. Do you believe that the operational set up enables each of the segments to deliver maximum value for shareholders?

Steve Foots, Group Chief Executive
Yeah, I mean, it's a good question. We don't believe we're any more cyclical. We believe we're less cyclical than we were two years ago, three years ago, and we don't believe the interdependencies of the sites are actually a long term issue for the group. It's a challenging period more around what I would call this psychological spending cycle, which is driven by the pandemic. And what you've seen is this big boom and reset period over the last three years, so we're living through the end of that. And I think what you're seeing for Croda is we're affected like others as well; we didn't expect all of the markets to become weak at the same time. I've lived through six cycles and in the other cycles, you never see that. So it's a very unusual period. And I think we shouldn't try and confuse two things, the business model of Croda and something which is quite a unique event. So clearly, we're watching every market to understand if there's any structural changes and we'll move and innovate in the right way to move into faster growth.

But I don't believe that there's a change there. I think we'll get back to a normal level of operating and then we'll demonstrate our growth from there. So we do feel we're ideally placed for the next few years. I think it's fair to say what we’ve seen in parallel with this is a capital spend period above the normal capex. We're adding a bit more pharma capex in there for the right reasons. So, you're finding that's taking a bit of depreciation and cost into the forward years. So you're finding that actually your margin is not bouncing back at the same level or hasn't done through this year, and that's partly because of the final stages of that pharma investment as well.

But we shouldn't confuse two things. We think our markets are primed for growth. We think our businesses are all growing. Utilisation rates will get back to normal. And once they do, hopefully we don't feel the need to talk about that with you or within the organization, because we've never done it for the last 30 years so I don't expect us to in the future, but we watch our markets to make sure that all the markets are moving in the right direction.

David Bishop, Director of Investor Relations
Thanks. And I think the final question is coming from Ranulf at Citi, so make it an upbeat one.

Ranulf Orr, Citi
I'd just like to follow on a bit from Georgina and just focus a little bit more just on Industrial Specialties and just how important that is to the group margin recovery. I think my understanding is it counts for a pretty large share of the volumes from the shared assets, maybe sort of 30 to 40 percent.

It seems that volumes over the last few years here have maybe halved. So I guess what I want to understand is how closely we should be watching these volumes, how important getting back to a 2019 level is for the group margin recovery or perhaps actually it's a relatively small impact, say, compared to recovery in crop.

Steve Foots, Group Chief Executive
Yeah, I'm going to play in Fitz in a sec. I mean, just a general comment up front, it's as important as it is incremental growth in the other businesses, because once we get utilisation rates back up to what I'd call normalized levels, they can come from industrial coming back first, a bit more crop coming back, further growth in beauty care and in some of the other existing businesses. So, all of those can help us. Industrial plays its part in the same way as

the others. I wouldn't overweight on industrial, but at the moment it's helpful. But I'll pass to Fitz just to come in because the margin levels in that business are very similar to what we see in most of our core as well.

Anthony Fitzpatrick, Interim Chief Financial Officer
I think there's a couple of key points. I think Steve's expressed it very well. First of all, most of the Industrial Specialties parts of the business that we actually chose to keep, partly because of the commonality of the sites, also the chemistries, actually the end markets that they find are actually quite powerful and interesting. And so, as Steve said, some of the margins we see there are actually comparable to the rest. The reason in the whole why you see the margins for industrial specialties being lower than the overall, however, we have tolling and residues, we still have some supply agreement with the purchaser of our industrial business.

So, I think the fundamental role of the business is trying to find those niche opportunities to load the plants up, make sure that we keep the plants humming along as best as possible, and add value with those chemistries and I think it does it very well. So, you can see that some of that focus has seen the volumes come back 21 percent sequentially, and you've also seen the margins come back. So I actually think it has a fundamental role, but on a much lower part of the overall picture for Croda.

David Bishop, Director of Investor relations
Great, thank you. Over to you Steve just for a few closing remarks.

Steve Foots, Group Chief Executive
Well, thanks everybody for the questions. I hope you got the answers you wanted. I mean look generally we're pleased with the first half. We're seeing encouraging growth in all parts of consumer, in all regions, innovation led. We've got industrial coming back and we're expecting the pharma business and seed treatment to come back in the second half and the only headwind that we've got at the moment is crop and a bit of FX.

So, we feel we're ideally placed and we're not far away from this growth trajectory that we're expecting. We've got the businesses largely where we want them and the team's working hard. So, we'll see you again in October and update you then. Thank you very much for the questions.

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