

# Croda International Plc

## Investor seminar: Accelerating growth in Consumer Care

### Call transcript

#### Key

Steve Foots	Group Chief Executive
Jez Maiden	Group Finance Director
David Shannon	President Consumer Care
Nick Challoner	Group Chief Scientific Officer
Richard Butler	Senior Vice President Fragrances & Flavours
Arnaud Fournial	Managing Director Beauty Actives
Susanna Casas	Vice President Sales Personal Care
Yong Chuan Lew	Managing Director Home Care
Julia Creasey	Group Sustainability Director

#### Introduction

##### **Steve Foots, Group Chief Executive**

Well, good afternoon, everyone, we can start. So, great to have so many of you in the room. Nice to see some friendly faces as well, it's about time we all got together, but also welcome to everybody on the online webcast as well. Lots of Croda people in the room today – some friendly faces, new faces there are well – introductions will follow, and I hope you will be able to stay on at the end of today's session to meet members of the team as well.

Ok, so let's start then. The agenda, so we are going to spend the next couple of hours really unpacking the Consumer Care sector. Each business lead will give you a sense of how we are scaling, strengthening, and accelerating and in the case of F&F, unlocking the strong potential that we see. The objective is to demonstrate the sheer breadth and depth of opportunities we've got and highlight how our innovation and sustainability leadership is creating new revenue streams, but it's also about giving a bit more and explaining why we are so confident in Consumer Care's ability to deliver consistent high growth in the years ahead. And of course, it is all about meeting the team, not just Jez and myself.

When I stood up to present our results at the start of the month, I said that we have done some of our best strategic work during the COVID-19 pandemic. Two acquisitions, record levels of investment and an agreement to sell the majority of our industrial businesses. These actions have helped to shape the strategic plan the Board and Executive Committee have recently signed off for the next 5 years, illustrated on this slide.

Today you are going to hear about 3 of our 6 strategic priorities – how we have been strengthening Consumer Care, and as part of that, scaling biotechnology and investing for faster growth in China, where the personal care market is growing at 9% a year.

The strategy is all about moving to faster growth, niche areas, with innovation and sustainability the key enablers. This approach is opening up more and more revenue streams for Croda. We are focused on markets that can value our innovation through high margins, are less cyclical as well as capital and carbon light.

We are a leader in sustainability through our strategy to be Climate, Land and People Positive by 2030. This is helping us to win market share from existing customers and new

ones because they are looking for sustainable alternatives that existing suppliers simply cannot offer. At the heart of our strategy is our purpose, Smart science to improve lives, which will continue to guide the strategic choices we make.

The agreement that we reached in December to sell a majority stake in our industrial businesses will significantly increase our focus and investment capability in both Consumer Care and Life Sciences. As well as becoming a more carbon light business, we will also have more IP as NPP sales will be close to half of total sales. Furthermore, we will have greater exposure to faster growth markets, supporting faster top-line growth and increased margins. And we will be in an even stronger position to drive consistent, superior returns in the future.

We have 8 growth businesses, supported by Industrial Specialities. All eight businesses have excellent growth prospects, and we expect each of them to deliver sales growth of one and a half times GDP, as a minimum.

Each business is run by a dedicated management team with their own R&D capability. They all supply critical ingredients at low inclusion levels, often selling in test tube quantities rather than tanker loads. So, thousands of products to thousands of customers, all with rich IP. And you are going to hear from four of them today.

During my time as Chief Executive, the Consumer Care business has expanded and evolved significantly to become a truly global business. We have executed our 'buy and build' strategy, acquiring new technology platforms and know-how through modest acquisition spends and grown them from within Croda. Nautilus and Enza are good examples of that. The acquisition of Iberchem at the end of 2020 established our Fragrances and Flavours business, where we see lots of opportunities for growth. We also brought Home Care into the sector last year – whilst a small business today it has some exciting technology and offers plenty of future potential.

A combination of organic and inorganic growth has helped to meaningfully enhance the amount of IP in the business, with NPP sales in Consumer Care increasing from 28% when we introduced this KPI in 2013 to over 40% at the end of last year. The customer diversity and geographic expansion has also been significant. We have a presence in 114 countries with an R&D and manufacturing footprint to support in close proximity to our customers.

Turning to performance. Personal Care saw a strong rebound in sales in 2021, with underlying sales 17% above the pre-pandemic level of 2019. Growth was strongest in the 'high end', IP-rich Beauty Actives business where sales were up 29% on 2020. NPP increased to 44% of sales helping to underpin industry leading margins of 25%.

After a challenging couple of years, the Beauty Care business is benefiting from our focus on sustainability-driven innovation, including products from our US ECO plant. We are seeing healthy demand for sun care, hair care, skin care and cosmetics with sales 13% higher. After strong demand for hygiene products in 2020, Home Care sales growth slowed to 8%. Fabric care and ECO products are the key drivers of growth here. Our F&F business is proving to be everything that we hoped, and you are going to hear more about that today. Integration is on track and the first cross-selling synergies are being delivered.

Trading in the first three months of 2022 has been robust, including a strong start for Consumer Care, and we continue to successfully recover input cost inflation. Along with everyone else, we saw rampant inflation in 2021 relating to raw materials, energy and logistics. Costs as a percentage of sales are on the left-hand side of this slide. We fully recover the impact of higher input costs, demonstrating the strength of Croda's operating model, one of our unique advantages and something that we will continue to do.

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We recover increases on a quarterly basis which positively impacted sales by 2% so far in 2022. We therefore expect the inflationary environment to be a tailwind for the business this year.

The Consumer Care business has been reshaped and it is being led by some new faces too. Dave Shannon has been in the business for 25 years and was appointed President of the Consumer Care division last May. Those of you that have followed Croda for a while will have met Arnaud Fournial who runs Beauty Actives. Susanna Casas is both Sales Director and leads Beauty Care, and Richard Butler, another long-standing member of the Croda family, has overall responsibility for our F&F business. Yong Chuan Lew is in Singapore and unable to join in person today, his presentation has been pre-recorded.

Outside Consumer Care, Nick Challoner, again who many of you will have met, is now our Chief Scientific Officer, and Julia Creasey is Sustainability Director. We are also joined by Jez, our Finance Director and Phil Ruxton, Chief Sustainability Officer. Enough from me, let me stop there and hand over to Dave Shannon.

### Accelerating growth in Consumer Care

#### **David Shannon, President Consumer Care**

Good afternoon, everyone. I am David Shannon, President of Consumer Care. As Steve mentioned, I've been at Croda for 25 years with various commercial roles in Consumer Care and Life Sciences in both Europe and the US, most recently running our operations in North America.

I am really excited to be here to tell you more about how we plan to grow our Consumer Care business over the next 5 years. Before the break Dr Nick Challoner, Group Chief Scientific Officer, will talk about our innovation program and in particular our plans to scale Biotech. After the short break the business heads will discuss more on each of the four business units that we have in Consumer Care, and we will take questions at the end.

Over the next 30 minutes, I want to explain why we are confident about being able to accelerate sales growth in Consumer Care. We already deliver sector-leading return on sales and our strategy will enable us to drive even stronger profit margins going forward.

In particular, you are going to hear how we are ramping up innovation and sustainability and enhancing our customer intimacy to strengthen our leadership position and reinforce our competitive advantage. Our strategy responds to and is driven by the mega trends that we see in Consumer Care markets. They are shaping consumer behaviour and therefore the demands of our customers.

Digital is having an impact on every aspect of our lives. In consumer markets, it is driving increased demand for ingredient transparency and accelerating new trends that are disrupting the market. Following 2 years of lockdowns, consumers are much more conscious of their physical and mental well-being. This has increased the focus on the efficacy of products with increased demand for ingredients that are underpinned by science.

Consumers also want to live more sustainably and that is impacting their decisions when it comes to the products that they buy. Generational shifts are accelerating these trends. The number of consumers willing to pay more for purpose-led brands that meet their specific values is increasing.

Turning to each of these trends one by one. Firstly, digital living. Most of the world's population now have internet access and use social media daily. This has two main

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consequences. First, consumers want to know more about the companies that they purchase from and the products themselves, which is driving a greater demand for transparency.

Second, digital is increasing the speed at which new trends are adopted. The internet and social media enables companies to engage directly with people globally which is creating new and often independent brands in the consumer care market. This is also lowering the barriers to entry for our customers.

These independent companies – or indies as we call them – have a ‘dream’ and an ambition to be in the market quickly. They need partners who can take that dream, convert it into a product and bring it to market at speed. Croda can make the dream a reality.

Proximity to our customers is now more important than ever. Our ability to facilitate fast innovation and minimise customer time-to-market is creating significant opportunities. We supply the ingredients, with fully formulated, on trend formulations, as well as broader support in areas like regulatory expertise, helping to ensure that all-important element, speed. For our customers speed is the new IP.

Let me give you an example. Zhuben, a local customer in China, wanted to get a new make-up cleanser onto the market quickly having spotted a new trend through some social media analysis. We offered them a market ready formulation, which shortened their development cycle by six months. Five of our ingredients are formulated into the product. We have established a great relationship and are now working together on their next product launch which will include our ECO bio-based surfactants.

This shows you how our business model helps us win and no customer is too small. They are too small for our competitors and that gives us an opportunity to get in early and grow them. We are developing new ways of working with these customers including dedicated websites, targeted social media campaigns, influencers and a multi-channel face to the market.

The second trend is using science to build trust. Consumers want to buy products that deliver performance, quality and safety. The top graph shows that consumers are willing to pay more for products with proven efficacy.

For consumers, understanding the science is an important part of being confident about the safety and efficacy of the product. Our customers need to enhance consumer trust in their brand, so they are looking to Croda for ingredients that enable them to deliver products with proven, substantiated claims. Deciem is a former independent brand with the strapline ‘the abnormal beauty company’. It describes itself as a ‘science first brand’, where product concepts begin in a lab, not in a marketing department. Deciem is a customer for our Matrixyl anti-ageing peptide which is something that they make clear on the product label, a label which is deliberately scientific and plain.

Another example is the brand ‘Matter of Fact’, whose website gives the scientific background to all the ingredients in its products. We expect sustainability to be the biggest single driver of consumer markets over the next decade and beyond. Consumers want products containing natural and ethically sourced ingredients.

The graph on the left-hand side of this slide shows consumer demands split by generation, millennials in purple and baby boomers in green. More than 50% of baby boomers now consider environmental issues when purchasing a product although they are less concerned about the broader impact of the product on the planet and the people involved in its production, described here as conscious beauty.

In contrast, not only are millennials more likely to be motivated by sustainability, but clean and conscious beauty are as almost as important as being green. The younger generation puts the most emphasis on sustainable products, but it's becoming more important for all generations.

On the top right, there is an example of an indie company in the United States that promotes its plant-based botanical ingredients that we supply. Consumer demand for sustainable ingredients is reflected in increased cosmetics and chemical regulation. There are now very few countries in the world without cosmetic legislation. An increasing number of countries also have chemical regulations in place, up by 20% from a year ago.

So, whilst the barriers to entry for our consumer care customers are falling, the barriers to entry for ingredient suppliers such as Croda are increasing, because of increasingly widespread and complex legislation.

As outlined in the bottom-right, in practical terms, our customers are looking for ingredients that are fossil-free and ethically sourced, which help them reduce their scope 3 carbon emissions and their transition to sustainability more generally.

Many of you will know that L'Oréal is a leader in sustainability in Beauty and Personal Care markets. We have a long-established and growing relationship with them due to our alignment on innovation and sustainability. To help bring that to life, I'll now hand over to Fabien Deswarte, L'Oréal's Raw Material Sustainable Innovation Manager, who will outline their approach and what they are looking for from suppliers such as Croda.

[Video]

Whilst L'Oréal has been the first mover in the beauty and personal care market, other multinationals are following on quickly, each with their own particular priorities. Often it is the smaller purpose-driven brands that are the leaders here, so our sustainability offer is relevant to all segments of the market, creating exciting opportunities for Croda.

So, to summarise, sustainability and science are driving consumers and our customers, with customers also wanting more intimate relationships with key suppliers to reduce time to market.

Having discussed the mega-trends, I'd now like to cover the Consumer Care market and our leading position in it. Over the next four slides, I will explain our highly differentiated position in the market, how we have organised our four businesses to give greater focus, which specific niches they target and the breadth of technologies that they can leverage.

Firstly, our position in the market. The top of this slide shows the forward compound annual growth rates for 2021 to 2025. Within our Personal Care segment, we focus on skin and hair care. Skin care is the biggest, fastest growing and most profitable segment, where we are the leading innovator in biologically active ingredients.

We also provide a wide range of solutions to the hair care market. This is lower growth overall, but we are focused on high-growth and value areas, such as products for professional hair salons. Across personal care as a whole, the market for ingredients is valued at \$23 billion. A proportion of our business are Croda's heritage ingredients, often used as the 'chassis' of formulations. These make up the backbone of a formulation, but they don't provide an "effect" or "activity".

Our primary focus is very much on our speciality and active ingredients that are critical to the claims our customers make. We produce these ingredients in low volumes, and they are formulated into customer products at low inclusion levels. They are also highly differentiated with high levels of IP protection and therefore command good margins.

The Home Care market is vast, covering air fresheners and dishwasher detergents as well as fabric care and surface cleaning. We target a very small sub-set of this market with two high-growth technology platforms. One which delivers sustainable cleaning as well as sensory benefits, and the other that delivers sustainable fabric protection.

And finally, we are the leading tier 2 player in the Fragrances and Flavours, or F&F market. In this high value, high growth market, we focus on emerging markets and local customers, with an increasing range of natural fragrance options.

This next slide maps our four Consumer Care businesses to these markets. Beauty Actives, in green, is the leading innovator in the skin actives market. We go-to-market as three separate brands, each targeting slightly different parts of the market but together they provide us with full coverage. We have the largest Actives portfolio in the industry from marketing claims to scientific claims. Each brand has its own dedicated team, providing focus for business development, accountability, agility and entrepreneurship.

Historically Beauty Care has been the opposite to Beauty Actives, a large business with a diversified product portfolio where a lot of our heritage ingredients sit. It's also the business where we see most competition.

Building on the success of the model we have in Beauty Actives, we have created smaller sub businesses to provide that focus, entrepreneurship and accountability and that is driving faster growth. These are Solar Care, Hair Care and our Formulation Ingredients. Our solar care and hair care businesses have huge potential which we are now starting to capture. Our formulation capabilities are being enhanced as we expand our reach through greater localisation and by decentralising our model. We are developing a Formulation Academy to promote the entire Croda range including fragrances to help deliver our customers faster solutions.

At the end of 2020, we moved Home Care into our Consumer Care sector as the sustainability drivers are similar and it is growing very fast. And in November 2020 we acquired Iberchem bringing F&F ingredients into Croda for the first time, to allow us to provide a formulation capability to our customers that includes fragrances. Last year we added Parfex, which has an excellent reputation for fine and natural fragrances.

We are building on the successful Beauty Actives model by decentralising our approach, putting decision-making closer to customers, and responding to local needs quickly.

The breadth of our portfolio of speciality and active ingredients is unrivalled in consumer care markets. In all we have more than 40,000 different product / customer combinations, augmented by almost 40,000 fragrance references. This is a large and complex business with a technology portfolio that is constantly evolving. Iberchem is our most agile business, creating over 200 new references each month to ensure its customers have access to the latest trends, but all four businesses are constantly developing new ingredients and refining their portfolios to focus on high-growth, high-margin niches.

Each of these businesses targets specific high-growth niches in the broader markets. Whilst skin care is already a fast-growth segment, the anti-aging niche that we target is growing faster still at 9% per year. In Beauty Care, the sun care market is growing 4.3% a year; and

in hair care the professional hair salon niche that is growing at 3.7% a year, twice as fast as the hair care segment as a whole.

Within the large Home Care market, the fabric care segment is growing at 6% CAGR. Surface cleaning is growing at 5% a year, driven by consumers' increased focus on hygiene and demand for products with proven efficacy.

Fragrances and Flavours is a high value, high growth market, and our focus areas are growing even more quickly – at 8% in emerging markets and 10% for natural fragrances. Our Formulation Academy will bind these businesses together to showcase how our ingredients perform in formulations. It will also help to educate and train our customers in how to use them. It will highlight Croda's key point of difference as a total solution provider capable of developing on-trend formulations that help our customers meet their ambitions.

It's the technology-driven niches that offer the highest growth rates in consumer care and Croda is very well placed to benefit from that. Croda's strategy is all about strengthening our position in these faster growth niches. We are focused on those markets that value our innovation through high margins, that are less cyclical as well as capital and carbon light.

I now want to outline how we will succeed, how we will combine market leading innovation with our leadership in sustainability, as well as unrivalled customer intimacy and even greater responsiveness, to deliver profitable growth.

Our ambition is to be the world's most responsive, innovative, and sustainable solution provider in consumer care markets.

To do this we will shift our existing focus from being a supplier of ingredients into mass and masstige markets to becoming a supplier of sustainable solutions in more premium and luxury markets.

This will be achieved by developing more performance led sustainable ingredients with full data transparency and supported by our extensive formulation and application technologies. Our customer insights, broad portfolio and formulation expertise will enable us to become the complete provider of sustainable solutions to the premium end of Consumer Care markets. We expect this to deliver £1 billion of top line revenue and return on sales of more than 25% by 2025.

To strengthen Consumer Care, we will become even more responsive, leveraging our unrivalled customer intimacy to meet compressed development cycles and achieve a faster time-to-market.

We are ramping up innovation, ramping up R&D investment and are taking bigger bets with more ambitious projects. In particular, we are scaling biotechnology as we see a shift from traditional chemistry technologies to more biology led solutions. That is enabling us to meet growing consumer demand for more sustainable and personalised products.

Our customers want us to deliver novel sustainable ingredients that are ethically sourced and produced from lower-carbon manufacturing. That is how we think about sustainability and the opportunity. And finally, we are investing for faster growth in China, where the personal care market is growing at 9% a year.

Firstly, let me talk to our responsiveness. At Croda we have a direct selling model, we do not use resellers. We have dedicated sales teams in 114 countries which give us superior levels of insight into our customers' future requirements and that drives our own innovation priorities. We also have 45 innovation centres globally, co-located with our biggest sales

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teams and focused principally on customer applications. Overall, we have 6,100 customers and, as I have mentioned, more than 40,000 customer product combinations.

This model is increasingly relevant as the market continues to fragment. 10 years ago, more than 30% of our sales were to multinational customers, the balance being regional and independent brands. Over the last decade we have seen a steady rise in the importance of smaller companies.

Whilst key accounts such as Estee Lauder and L'Oréal have consistently grown in recent years, our sales to indie and regional customers have grown more quickly and multinationals now only represent one quarter of our consumer care sales. The key trends that I outlined at the start are driving this fragmentation and we expect it to continue.

Why is that good for us? Croda offers the broadest range of critical ingredients in the market. Our portfolio is a huge differentiator, and it gives us a significant competitive advantage over other established players and new entrants in our markets.

In addition to providing the key ingredient that makes the label claim, we also supply most of the functional ingredients needed for a formulation that give it the right texture, sensory benefit and ultimate in-use experience. We complement this with broader support in areas like regulatory compliance, to ensure customers can get their product on the market quickly. As I said earlier, time-to-market has become a real driver of customer decision-making, given the fundamental shift in consumer expectations, competition from more agile competitors, and a collapse in product development cycles.

We are an innovation partner to our customers, something which is particularly valued by regional companies and indie brands. For example, an indie company in North Asia came to us when they wanted to take their salon hair care products to the US market. Developing products from Asia without having a detailed first-hand knowledge of the US market was difficult due to the different needs and hair types, so they approached Croda about hosting 2 scientists in our labs for 6 months to help their product development. They were also able to take advantage of our in-house salon to do all their necessary performance testing. It was an opportunity for Croda formulation chemists to work closely with the customer and recommend other formulation ingredients from the Croda portfolio to get the performance they were looking for, leading to approximately £2 million in new sales as a result.

We are building on this innovation partner role, by providing on-trend and fully certified ingredients in ready-made formulations via the Croda equivalent of a one-stop-shop and educating customers through our new Formulation Academies.

This is what our formulation capability looked like previously with 3 global formulation centres and labs in a handful of our key territories. To further increase our proximity to customers, we have decentralised our formulation capability to an 'in-country' model. This means we are working much more closely with our customers locally. We now have 3 expert formulation centres where we have specialist formulation science capabilities. In addition, we have 7 'one stop shop' formulation labs where we have formulating expertise including with fragrances and are also able to generate claims data including performance, textures and sensory effects. More recently we have established 8 in-country formulation labs providing quick turnaround of customer product development projects as well as offering promotional packs for marketing purposes.

In a typical Croda formulation lab you are likely to see Croda scientists and customers working together, not just on the ingredients we supply, but on the performance of the formulation more generally, and on all aspects of the product launch that enable the customer to get it to market quickly. Our new labs have the latest digital technology so we

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can demonstrate our products and train our customers through virtual means. The multinationals enjoy this capability we offer as well, with notable reformulations of recognised consumer brands being done in our labs.

Now turning to innovation which drives growth in consumer markets. There is regular product churn by our customers who are constantly looking for the next big thing. Both for them and for us, innovation is the key driver of future success. Croda achieves unparalleled levels of customer intimacy which drives our innovation priorities and results in a continuous pipeline of new ingredient offerings. It is the creation of these new fast growth niches that continues to power Croda's growth.

We are stepping up innovation with more resource, more external partners, and a focus on big bet projects, resulting in an increase in the proportion of protected products that we sell.

At the end of this section, Dr Nick Challoner, Croda's Chief Scientific Officer will tell you more about our big bet projects and one critical area of innovation, biotechnology, and how we are scaling that. Innovation will continue to be Croda's most important differentiator and our strengthened to grow strategy for Consumer Care combines our market-leading innovation with our leadership in sustainability to meet customers' and consumers' needs.

Next, sustainability. The reason we are confident that Croda will win through sustainability is our track record of successful investments in sustainability and recognised leadership position.

Over the last decade we have invested in sustainability, summarised on the left-hand side of the slide. That has accelerated our ability to meet our customer's sustainability needs and is delivering incremental value to Croda. Over the rest of this decade our investments in sustainability for Consumer Care will focus on four key areas, set out on the right-hand side of this slide. Firstly, increasing the level of biobased ingredients in response to Fast Moving Consumer Goods demands to 'de-fossil their ingredients', where we are aiming for more than three quarters of our raw materials to be biobased by 2030.

Secondly, working to ensure our sourcing activities have a positive impact on the environment and communities in our supply chains and we have traceability throughout the supply chain. Thirdly, innovating to ensure our product innovations are working harder than our existing product portfolio to meet the future sustainability demands of customers and consumers. And fourthly, dramatically decarbonising our manufacturing processes and supply chains, through process innovation and partnerships with like-minded suppliers. If we achieve our validated Science Based Target, we will be providing every customer with an average 35% reduction in their scope 3 emissions associated with purchases from Croda.

All these investments point to a changing product portfolio in Consumer Care markets, future-proofing existing value, capturing market share and developing new market niches.

In addition to our three global priorities, responsiveness, innovation and sustainability, I now want to talk about the most attractive geographical market for Personal Care, China. We have a specific strategic objective to achieve fast growth in China, where the personal care market is expected to grow faster than any other region. We are well positioned to serve the growing Indie market in China by adopting the successful model we have in the US. We see opportunities in the Skin care market, particularly solar care and anti-aging, as opportunities for growth.

We are all already well established in the Chinese personal care market, principally selling ingredients for the domestic market rather than export. Croda's brand recognition is comparable to the largest ingredients companies. We also expect to benefit from Iberchem,

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which is the leading F&F supplier in China behind the tier one companies, with a particular focus on large local customers. Iberchem's customer base in China is quite different to Croda's so we see an opportunity to cross sell fragrances to Croda customers and Croda ingredients to Iberchem customers and this will be a focus area for synergies. Consumer Care sales to China increased by 25% in 2021 as we doubled our resources there, particularly in technical and sales roles.

We see the biggest opportunity within the skin care market in China, the fastest growing skin care market in the world. We will be investing in more in-country production capabilities with a combined botanicals and fragrance facility near Guangzhou that we expect to build in 2023. Not only does this shorten supply chains but it sends an important message that we are fully committed, "in China, for China." Having an active portfolio made locally supporting with in-country formulation laboratories will help us win in the fragmenting market with the rise of the Indie brands like we have seen in the US market. We are developing our digital capabilities to enable us to connect with these brands like we have done in the US as well with a dedicated Chinese website and social media presence.

So how does this all add up. Last year, we increased our guidance for medium-term sales growth from low-to-mid single digit percentage to mid-single digit growth for Consumer Care. Looking back over the last 10 years, the average annual sales growth of this sector has been mixed. Over the medium term we expect growth to accelerate so that we deliver a minimum of 5% annual sales growth driven by a combination of volume and mix, with the synergies from the recent F&F acquisitions on top. The additional benefit to sales that we are currently seeing from inflation cost recovery comes on top of this guidance.

We are confident of delivering faster and more consistent sales growth. This will come from the growing customer demand for science and sustainability, our more decentralised model, the addition of higher-growth Home Care and F&F businesses, plus F&F sales synergies, and our expansion in China. The leaders of each business unit will go into more detail in the second half of the presentation.

Although we already deliver sector-leading return on sales, at 25% in 2021 compared to an average of around 15% for our peers, our strategy will also drive even stronger profit margins. We expect to improve our return on sales in 2022 and beyond, principally through improved business mix as we drive the growth of the higher value businesses with the highest levels of New and Protected Products. Improved profitability at our bio-based surfactants plant in North America should provide an additional tailwind.

Investment is focused on new growth opportunities, such as our fabric care technology which quadrupled its sales in 2021, and we continue to be very selective about where we allocate capital whether through organic or inorganic investment. So, in summary our consumer care business has evolved significantly over the last few years. Today it is highly differentiated with market leading positions in the fastest growth areas. And our focus is entirely on fast growing niches - high margin and high growth. How do we achieve that? By leading in sustainability and innovation – and we are doing that in both.

We've increased our proximity to our customers. Consumer Care is a global business capable of supporting customers big and small anywhere in the world. And all of that is generating more consistent sales and stronger profit margins, ensuring a stronger growth profile for the years ahead. I'll now hand over to Nick.

## Scaling biotechnology

### **Nick Challoner, Group Chief Scientific Officer**

Good afternoon, everyone. My name is Nick Challoner, I am Croda's Group Chief Scientific Officer. It's a pleasure to be here with you today to talk to you about how our innovation program is fuelling future growth in Consumer Care. For the next 10 minutes I'm going to focus on how the 'Scale Biotechnology' element of our strategy will enable even greater innovation whilst also transforming our approach to sustainability.

Biotechnology can be simply described as using microorganisms such as bacteria, yeast and fungi as cellular factories for the creation of new products. Used correctly these microorganisms can be a highly sustainable route for the creation of new and existing molecules that have applications in high growth markets of today and the future.

The use of biotechnology for the creation of materials is not new and predates chemical technology. In the ancient world, biotechnology was used for the creation of wine, beer and food and thank goodness it was discovered for that purpose. But the industrial use of biotechnology really started to develop through the manufacture of antibiotics and since then it has become an increasingly important technology within the pharmaceutical and aligned life science sectors.

The use of biotechnology within the chemical sector is a more recent development. With rapid progression of natural candidate organisms and the potential for genetic manipulation through synthetic biology techniques, we have started to see interest in biotechnology increase. It is being used as both an innovation engine and as a way to deal with the sustainability headwinds faced by companies across the world.

Croda is in a strong position to exploit the potential for biotechnology and harnessing its power alongside our traditional chemical technologies. The Croda approach, because we like to do things differently, is to deploy biotechnology for market and even customer specific opportunities in a targeted manner. We do not want to use biotechnology for the creation of big volume biobased building blocks like many of our peers.

Whilst chemistry continues to offer significant opportunities for innovation through ongoing research into new raw materials, processes and consumer led performance targets, it is in the area of biotechnology that we are significantly increasing our focus by investing in both biocatalysis and fermentation. Biocatalysis is where enzymes rather than metal and chemical catalysts are used to create the product. Fermentation uses live organisms as the factories of the production process

Through this approach we expect to continue our reputation for innovation led discovery by being able to create differentiated new products, with greater biobased content compared with petrochemically derived materials. Critically, the outputs of biotechnology are completely aligned with the direction of our customers. As such, we expect biotechnology to significantly enhance our approach to both innovation and sustainability and it will therefore become an increasingly strong element of our Strengthen to Grow approach for Consumer Care.

Biotechnology is not new to Croda, in fact we were producing lactic acid by fermentation back in the 1970s. We have a rich history in the use of enzymatic processes and biocatalysis within our protein development programs stretching back more than 40 years and additionally, we have been using biotechnology as a way of innovating in Sederma with some of our best products such as Majestem, our neck firming active, being developed through biotech.

Since then, we have continued to invest in biotechnology where it has helped create new opportunities for innovation aligned with the needs of our customers. As such, in the last 10 years we have acquired innovative new capabilities through the purchase of IRB, Enza and Nautilus, and we have invested in organic biotech R&D and scale-up capabilities at Sederma in Paris and our two UK facilities close to Liverpool. This has allowed us to create broad-based expertise and capability across industrial white biotechnology, green plant biotechnology and blue marine biotechnology.

During the next five years we will invest to increase expertise, accelerate new product development, add manufacturing capacity, create new smart partnership frameworks and support further acquisition opportunities. These investments will further enhance our capability and reputation as a biotech innovator, allowing Croda to continue to develop exciting future positions in both existing and new markets in a manner which is aligned with Our Purpose and supports our ambition of being Climate, Land and People positive by 2030.

Our initial activity has led to 5 biotechnology R&D laboratories across the Croda group with more than 50 dedicated biotechnology scientists actively developing new technologies. We have increased the breadth of our Open Innovation activity with universities. Just as importantly we have also developed strategic partnerships with external companies who are leading organisations within their specific field of biotechnology and are therefore superbly positioned to support Croda within our focus R&D areas.

Additionally, we have investment plans in place for our two key manufacturing locations, identified additional opportunities for biotechnology expansion and developed external scale up relationships to support product commercialisation.

To ensure we remain focussed on key opportunities we have identified four consumer care led big bet biotechnology projects. We describe them as big bets not because of the capital investment required but because of the revenue potential. They represent opportunities for innovation and sustainability led transformation of our business that are completely aligned with customer and consumer expectations.

The Sustainable Actives platform will allow us to continue to develop our rich heritage in consumer led performance ingredients in skin and hair care using biotechnology as the innovation vehicle. Our big bet activity in sustainable surfactants will look to create new classes of biosurfactants which are sustainably derived but performance driven. These new sustainable surfactants will complement our ECO range with both offering new and expanded markets for performance led sustainability positions in customer formulations.

Peptides have developed a leading global position as anti-ageing ingredients for skin care formulations. Our aim is to maintain this but to create a new class of functional peptides with enhanced sustainability characteristics. The acquisition of Iberchem has created a fantastic creative fragrance business within Consumer Care. We will be helping them to introduce new bio-based fragrance ingredients to help strengthen the sustainability proposition for our customers, an unmet need for the fragrance sector.

The common theme across these Big Bet Projects is that biotechnology will enable ongoing innovation, facilitate product decarbonisation and support the transformation to bio-based ingredients.

I previously described how we have built a network of 5 biotech R&D centres and relationships with external partners with specialist knowledge in specific areas that are useful to our R&D programs. Each of these investments and acquisitions brought in expertise and capability, for example plant cell culture from IRB and marine organism fermentation from Nautilus. However, it is their combination as an R&D engine that makes them so useful.

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Fantastic ideas are generated, and candidate materials identified through the R&D centres, either independently or collaboratively with each other. We then screen for performance using the high throughput techniques at our Canadian research facility Nautilus, with the positive candidates then being developed into marketable products within our customer facing businesses. It is this ability to rapidly screen for performance across a range of desired functionality in a high throughput manner which is one of the competitive advantages of our biotechnology investment.

This in-house capability is critical in keeping our pipeline of developments and niche opportunities healthy. To bring this process to life I would like to showcase some of the near to market R&D activity developed within our Big Bet Projects which highlights the innovative application of biotechnology against customer needs.

To start with, let's talk about dandruff and our research into novel and sustainable actives. Anti-dandruff is an ongoing problem for many consumers and is now a basic part of the performance requirements across many shampoo and conditioner brands. This performance requirement has been satisfied for many years by the active Zinc Pyrithione which is no longer permitted under many regulatory frameworks and is being eliminated from hair care formulations around the world.

Whilst new technologies are being introduced, the gap has yet to be fully satisfied in a sustainable manner. Using the high through-put screening methodology previously described, we have identified candidate materials with one now being progressed to late stages of evaluation. This product is a fermentation product from a microorganism collected from Atlantic Ocean Sea Foam and its anti-dandruff potential looks very strong against reference industry standards. We hope to launch this product in early 2023.

Moving onto our sustainable surfactant platform, we have two exciting projects in the areas of glycolipids and acylated amino acids. Biosurfactants produced by microorganisms offer the potential to create high performance surfactants through the use of biotechnology in a low energy environment using only natural sugars and natural oils. Our glycolipid surfactant platform uses a microorganism found naturally on bumble bees which we can industrially scale up to produce a range of glycolipids. We are currently undertaking production trials to develop material which we will then use to partner with selected customers to allow the development of the market.

The Acylated Amino Acid Platform is somewhat further away from commercialisation, but I want to mention it to highlight the power of synthetic biology which I am convinced will have a key role to play in the future of our industry. Acylated Amino Acids are an existing class of mild, sulphate free surfactants systems. Whilst these products have excellent performance characteristics, they are produced using synthetically derived materials by chemical reactions using some high hazard processes and materials. It is desirable to eliminate these unsustainable elements, and this can be achieved using synthetic biology. SynBio uses a library screening approach across known organisms and then looks to modify the genetics of the organism to enable it to complete the reaction we are looking to replicate. This project is in the early stages of development, but it does highlight the potential of this approach for disruption of the chemical sector.

So, in summary there is strong rationale for WHY we are scaling biotechnology. It will support our ongoing focus on niche innovations and deliver sustainable new product opportunities for the future.

I've explained how we are scaling biotechnology through our focused investment in areas we believe will have maximum impact for Croda and our customers. I have also demonstrated how and why these investments in biotechnology are important as a catalyst for innovation

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and sustainability led transformation within consumer care. Finally, all that remains is for me to thank you for your kind attention. We will now be taking a 5-minute break for refreshments.

## Scaling Beauty Actives

### **Arnaud Fournial, Managing Director Beauty Actives**

Good afternoon. My name is Arnaud Fournial and I'm the Global Managing Director for Beauty Actives. As Dave has introduced the bigger trends, the science to build trust and sustainability, these trends are already a reality in the market, and they are a reality for Beauty Actives. Science is of course the strong path for us, and it's linked to our anti-aging technology, peptide technology.

We see under the Matrixyl 3000, as this little logo as something that has been given by our peers, who demonstrate – and we have been elected to be the most impactful raw material in the past 25 years for the industry. So, we are very proud of that, and it shows the success of our peptide story.

But also, sustainability is more and more a source of innovation for us. And with biotech, Nick Challoner has spoken about that, but we have Majestem coming from plant cell culture, from IRB and others.

Naturality is also a trend that we see more and more on the market. And major customers like L'Oréal for example, calculate a naturality index and you need to be natural, if you are not, you are not any more in the formulations. So that's really what we do.

And the third thing, L'Oréal also have spoken about this 'Sharing beauty with all programme'. And in this programme, you have the sustainability sourcing, ethics sources, and local sourcing. And that is what we do, and this is an example with the Fruitliquid Kumquat.

Our ambition is to cover the whole active market with the broadest portfolio of the market. We have since a long time Sederma; we act in the prestige market. We have Crodarom, botanical extract, we act in the mass and masstige market. And since one year we have Alban Muller. Alban Muller is a botanical active with local sourcing and also eco-processes to manufacture our product.

Sederma, in terms of science is really the top of the market. It's a highly differentiated active with peptide and biotechnology. Alban Muller, I have spoken, and you have Crodarom with botanical extract with traceability and give label claims to our customers. So, we have a full portfolio, and we want to have the full active market, or a big part.

We are leaders in the innovative technology of the future. The market for actives is £1.9 billion and we are leading the three measured part of this market. You see the total skincare active increase of 5.3% and the three segments where we are increased much more.

The peptide we have, it is a leading technology for anti-age. Sederma supply around 80% of the new products containing a peptide. And we do continuous innovation on peptides. We launched Matrixyl a long time ago, since then we have launched seven new Matrixyl, still peptides, still anti-age, but with slightly different applications. And the next generation of peptides will be bio-based.

Botanical of course derived from plants, organically cultivated, sustainability sources and this is a huge portfolio of different products. It's also offered to us the possibility to tailor make products from our major customers. And 42% of new launches in the Personal Care are containing botanicals, so you see the importance of this market.

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Biotechnology, we are not a newcomer, we supply more than 15 products already on the market. It has been 33% of our portfolio. We have multi-platform, fermentations, plant cell cultures, and it gives sustainable benefits.

As you have already understood innovation is the motor of our growth. We will continue to invest in the peptide side, in the peptide with greener technology. This means with processes that use less solvents, to be something much more greener and still on novel application on biomimetic peptides.

In terms of biotech, we have the plant cells cultures for a long time now and we work on the third generation of these plant cell cultures with epigenetics.

Nautilus who arrives recently in the Group, will be a very important source of marine microorganism to provide us actives. Synthetic biology, Nick has spoken about that. And we work on a new way to manufacture peptides. This means that we can take an algae, or a yeast and put the DNA – we produce the peptide. And when we have done that we make fermentations, and they produce the peptide.

When we have all these products – what we need to worry about is how we are going to deliver it into the skin and for that this is encapsulations. Encapsulation will protect the active inside the customer formulation, but it will also deliver the active at the right level into the skin to be more active. And this is very important.

We are going to launch soon a product with retinol. Everybody knows retinol, it's a very well-known product, but what is really new – is the encapsulation technology that we have, it will provide the retinol at the right level of the skin to give the right application. And 80% of our R&D is green.

When we have the active, you have seen peptide, biotech, botanical, and we need to demonstrate that it works, so we have screening of that. And the screening will give a rough idea of what can be the applications.

We have robotics in Sederma, you will see in the movie, and also, we have analysis of the market – we have customer need. And with all that we can do a positioning of our actives. And we can find what will be the application of our active. And after we need to demonstrate that it works. And this is also a strong way to innovate for our product – it is the mechanism of actions into the skin. And we do that in vivo and after the final – the juge de paix at say in French, will be the in vitro, the in vivo test, where we have panellists in Sederma around, 1,000 panellists that we use to demonstrate the results.

And when we have the active, we have demonstrated, we have the product on the market. And this is some examples of products on the market. We recently launched Silverfree, with a peptide and with delivery of 13% reduction in grey hair. A very interesting result, grey hair it's a problem, nobody has that in the room, but others can have it. Others can have it. It also shows that Sederma can be active in the haircare market, we think beauty active – skincare, yes of course, but in haircare we also have some interest.

Majestem with the plant cell cultures coming from edelweiss, with neck lifting. Venuceane with something that comes from a microorganism from the Mexican Gulf. So, it was before Nautilus but it really shows what Nautilus can provide to us, because what Venuceane gives is a very interesting result in terms of antioxidant and sun damage.

Cytokalmine, a product from the newcomer Alban Muller for sensitive skin, manufactured by an eco-process. And Phytessence from Crodaron, Phytessence as live for haircare, and

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with solidarity sourcing, this means that we have a collaboration with the French government on forests where we can collect and grow some hazel leaf.

We have consistent growth since 2011 to 2021 of 6.7%, but we will accelerate this growth with the high single digit, doing what? Doing what we know since a long time, this means deep scientific expertise for unparalleled efficacy. But not only will we increase the sustainability ingredients, we are now also a botanical leader with Alban Muller, and we will reinforce that.

Biotech leader, we will still continue to invest in terms of R&D, new products, and on biotech and the China expansion, we will come back a little bit on that.

On margin, we have a strong NPP, more than 70% of our product – we are, and you have understood that, highly differentiated products, so it gives as a result a little bit more than the average sector margins, or more than the average sector margin.

Investment, we want to expand in China. China will be the first skincare market in the next five years or whatever, but it will be a very strong market for skincare, it already is. So, we want to produce in China, but more than produce, we want to capture the trend, we want to be closer to Chinese customers.

We want to reinforce our biotech capability within the Group, with what Nick showed you, but also in Sederma with some investment in plant cell cultures and in fermentations and acquisition of new technology and natural ingredients.

I will leave you with some takeaways, we are number one in the faster growing active technology. We are market leading in innovations, with NPP of more than 70%. We do clever science, that will drive our future expansion, these are probably the more important things for us, and 80% of our R&D pipeline is green. We have a leading position in Asia, but we want to invest and to reinforce this leading position, as a result we will have fast growth and strong margin.

I will leave you with a video. It will introduce you to Sederma and a little bit deeper in Sederma, in the science in Sederma. But also, you will have a video from Boots, Mike Bell, who will explain the collaboration that we have with them. It's a little bit more than collaboration, it's a scientific intimacy that we have since years, with quite a lot of customers.

[Video]

### Strengthening Beauty Care

#### **Susanna Casas, Vice President Sales Personal Care**

Hello everyone, my name is Susanna Casas, and I am the VP of Sales Personal Care and Business lead for the Beauty Care segment.

In my presentation today I will cover how we will be consistently growing the Beauty Care segment and what we will be doing differently to make this business a success. In summary we are doing three things. The first one is the creation of two business franchises to give more agility and focus to growing market segments of Solar & Hair Care. We are going to be leading & supporting sustainability consumer trends with our formulation ingredients that run across all applications. And we are going to become a full solution provider with the creation of the Formulation Academy.

Just as a reminder, the Beauty Care business is the most sizeable Consumer Care business at Croda, with a large product range, basically all ingredients that are found in a personal

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care formulation, except the actives and fragrances. After a couple of difficult years, in 2021 it reached a turnover of over £400m with a growth of 13%.

So, what's the new approach we are going to follow in Beauty Care? Following the success of our Beauty Actives business we have created two business franchises for the fastest growing segments of Solar care & Hair care.

Why have we selected these two segments? They are fast growth segments with more profitable sales with appetite for innovation that Croda can provide, and they have a big potential in China that fits with the Consumer Care strategy.

In 2021, the Sun Care business grew by 40% and the Hair Care business over 20%, although smaller in size than our formulation ingredient segment, 30% of total Beauty Care business today, the growth prospects are bigger. Formulation ingredients will continue to be the biggest portion of Beauty care, today represents 70% in total, these are the ingredients that make possible to formulate finished products that provide the right rheology and sensory, and run through all segments, skin, hair, solar, colour cosmetics.

To bring to life our Beauty Care business and using our historical formulation expertise we have created the Formulation Academy, a full formulation service to exploit the breath of our Personal Care portfolio; actives, effects, formulation ingredients and the newly acquired F&F business. This will be a means to grow our Beauty care business that I will illustrate with examples later on in the presentation.

Moving into the right of the slide, this new structure will provide the right set up to achieve the strategy of Strengthening Beauty Care, with increased focus on innovation, agility and sustainability.

This slide illustrates with a couple of examples how we are winning in the Solar and Hair care markets. Both segments are growing at least 1.5 times the market growth and they are very receptive to innovation and sustainable ingredient solutions.

In Solar Care, we enable customers to make pack claims like; Reef Safe, help preserve biodiversity, 100% natural mineral filters that fit consumers demands and with a big sustainability component. Croda is number 1 in sustainable UV mineral filters and can support the now global All Mineral trend that brings huge growth prospects in China and the USA as well as the usage of UV filters in everyday skin products.

In Hair Care, we are also supporting customers with pack claims like vegan where we have seen a more than 500% increase in the number of launches since 2015 or the example in the slide of The Ordinary that mentions in the pack that it contains 2% of Croda's conditioning agent that will provide the hair softening activity to the end product. This mimics what we are doing with our actives business as Arnaud has mentioned in his presentation. In Hair Care we are also gaining share at large accounts, with brands that you will recognise like Pantene or Herbal Essence that traditionally used commodity surfactants that are being replaced by Croda's more sustainable ingredients to formulate Sulphate free shampoos for example.

In the previous slide we talk about how we will generate growth with the creation of the two business franchises. Now I will explain how we are winning in the market with our sustainable formulation ingredients. Here we are talking about surfactants that are present in more than 90% of Consumer Care formulations, products that provide efficacy and keep formulations stable. In very simple terms, these are products that allow oil and water to mix. The market exists we need to continue supporting our customers to meet their ever toughening regulatory and sustainability demands.

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The sulphate free trend has provided a growth platform to Croda with a differentiated surfactant that is considered the industry benchmark. Going back to hair care, we have won new business with major brands that have formulated sulphate free shampoos. Overall, sales have more than doubled since 2017 and gained position at new accounts in the process. Significant investment is ongoing in this technology including new biotech routes to produce the same molecule.

ECO surfactants made from bioethanol also provide a great opportunity for growth, to replace existing petrochemical EO derivatives with identical performance. We are gaining new share at customers we didn't serve in the past by meeting demand for more sustainable solutions. Our sales have increased by 6 times in 2021 in Beauty Care alone.

Moving to the right side of the slide. As some of you will know, the commissioning of our USA bio-EO plant has been challenging but we are pleased to inform you that the plant has been operating efficiently for more than a year. We are very excited about the sales pipeline and anticipate 75% a year top line growth and the plant becoming profitable in 2022.

Demand for sustainable ingredients continues to grow and our commitment is that by 2030, 75% of our raw materials will be biobased.

This slide illustrates examples of our new product launches in 2021. All of them with a strong sustainability angle. Starting from the left and following a partnership with a Zinc Oxide producer in Turkey, we have launched our Solaveil MicNo a brand extension for a solar care UV filter based on Zinc that will allow the final formulation to be transparent whilst providing the highest UV protection.

The two examples in the middle for Hair Care applications, effect ingredients with softening and strengthening properties that will allow our customers to make all the free from and sustainability in pack claims that consumers are looking for.

And finally, an example for a formulation ingredient that will provide excellent sensory properties which is a beeswax alternative, replacing an animal derivative that has been widely used in the industry for its unique properties.

We have explained how we are focusing on high growth market segments and how the sustainability trends are supporting our growth, now we will explain how the creation of the Formulation Academy will support the growth of ingredients across the Consumer Care portfolio, that as we said represent today around 70% of the business in value.

Croda has accumulated a depth of formulation expertise across all applications. In the past we focused on creating stable formulations that supported primary claims such as skin moisturisation. In the past 5 years we have worked hard to understand the sensory aspect of cosmetic formulations and how that affects the consumer experience. With this knowledge we supported customers to solve formulation challenges, we use the formulation data to work on claim substantiation and overall we used it as a way to start a conversation with customers about ingredients.

What has changed after the acquisition of the F&F business is that we have enhanced our formulation capability and have a unique positioning by being able to provide a range of over 1500 market ready formulations across skin, solar and hair applications areas.

This "full service" model is very interesting to small indie brands but also to more consolidated medium sized brands but for different reasons

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The indie example from the left, these are small and very agile companies, marketing and values driven often with limited formulation capabilities. Croda can help them proposing ready fragranced formulations with the right sensory that reflect the company values, we can suggest claims and provide regulatory advice. We will not sell the ready-made formulation but can provide advice on contract manufacturers. Croda will sell the ingredient to these companies.

For better established brands, example on the right, we can support them in a different way, to diversify the brand offering by expanding their product range and adding new claims for existing ingredients. This brand in particular started just making face masks with strong marketing story, now they are moving into skin care with formulations full of Croda actives that we will sell directly to them. Two different types of customers that we will serve in a different way, but both will be taking advantage of our formulation capabilities.

We are confident that the actions we are currently taking in the Beauty Care business will generate more consistent growth than in recent years. 2022 has started very well, demand is high, and results are encouraging. We expect to generate low to mid- single digit growth in a consistent way in future years by focusing on higher growth segments of Solar & Hair, continuing to extract value from our sustainable ingredients and ECO technology and making full use of our enhanced Formulation capabilities.

We expect to improve the return on sales of the Beauty Care business as well by continuing growing the NPP sales, over 30% already in 2021, we will continue refining our formulation ingredients portfolio and improving the ECO profitability.

We have invested in capacity in areas of high demand like hair care and differentiated surfactants and expect increased resources in Formulation Academies, albeit investment will be modest.

And now a few takeaways I would like to leave you with. We have a refocused & reinvigorated business model. We will continue innovating, driving NPP growth. The demand for sustainable ingredients continues to grow in the market which works to our advantage. Further differentiation to our beauty care business through full formulation capability as described and all of this will serve to improve margins and more consistent growth for beauty care. Thanks for your attention and now I will hand over to Dave Shannon to introduce the Home Care business.

### Accelerating Home Care

#### **David Shannon, President Consumer Care**

Yong Chuan, who leads our Home Care business, is based in Singapore and his presentation has been pre-recorded as he isn't able to join us in person today.

Sustainability is also the key driver in Home Care markets, and we have two technology platforms that are helping our customers achieve their sustainability targets.

Firstly, as Susanna has outlined for Beauty Care, we are seeing sales of our ECO surfactants accelerate rapidly in the area of sustainable cleaning, as they are 100% bio-based but the performance is just the same. Secondly, we have a range of technologies that deliver sustainable fabric care and protection, helping to ensure clothes last longer. I will hand over to Yong Chuan to explain how big sustainability trends coupled with Croda innovation is driving strong growth in this part of our business.

## **Yong Chuan Lew, Managing Director Home Care**

Hello. I am Yong Chuan Lew, Managing Director of Croda's global Home Care business based in Singapore. The growth of the Home Care business is accelerating rapidly driven by sustainability and innovation. We provide ingredients at small inclusion levels that deliver significant performance, sustainability and sensory benefits for our customers – much like in personal care. So, there is lots of collaboration, particularly on innovation.

Today, I will explain more about Croda's sustainable cleaning and fabric care technologies, both of which are growing rapidly. At the same time, I will show you some of the capabilities that we are investing in here in Singapore.

Firstly, I wanted to talk about Croda's sustainable cleaning technologies where we are seeing strong demand as consumers focus on hygiene. Surfactants are formulated into around 5-10% or more of all cleaning products, depending on applications. Traditionally they have been made from fossil-based raw materials, principally natural gas.

Croda's ECO surfactants are made from bioethanol derived from corn, so are certified as 100% bio-based. Importantly, their cleaning performance is exactly the same as the non-sustainable alternatives. Many brands are committing to 100% fossil-free home care products over the next decade.

Initial sales of our ECO products were to brands that are differentiated by being 'green' and we are growing sales to these foundation customers. Beyond that, our sales pipeline is expanding rapidly in every region of the world as we help customers of all sizes meet changing consumer requirements. It's a great example of how we are taking market share and displacing petrochemical competitors by providing sustainable alternatives.

The next generation of Home Care products will be derived from biotechnology. In this laboratory, we are developing probiotics for cleaning part of Croda's increased biotechnology investment. We are a pioneer in this area, with sales in North America and Europe as well as Asia, for cleaning applications including combating pet odours.

I've now come to our manufacturing operations, to show you some of the recent investments we are making in fabric care. The garment industry is responsible for 3% of global carbon emissions. What's more, over half the clothes we wear end up in landfill. Extending fabric life can therefore deliver significant benefits for the planet.

Croda has developed a range of fabric care proteins that replace silicones to protect individual fibres and double the lifetime of clothes. They can be formulated into products alongside our bio-based surfactants, and our botanicals and fragrances that provide sensory benefits.

These proteins were critical to Unilever's relaunch of their Comfort fabric conditioner in more than 30 countries. In all, we have over 80 customers and delivered a five times increase in sales in 2021. More importantly, we are helping to reduce the environmental impact of this industry through lower carbon emissions, reduced water use and a significant reduction in clothes disposed in landfill.

We are backing these rapidly growing technologies with £30m of investment in Spain and the UK as well as here in Singapore. It's a zero-carbon expansion so we are not increasing our carbon footprint despite the three times increase in capacity. More capacity will mean more sales of tens of millions pounds a year.

With our sustainable cleaning and fabric care technologies helping customers achieve their sustainability targets, growth is accelerating, and we expect to deliver double digit

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percentage annual increase in sales between now and 2025. The proportion of new and protected products we sell is also expanding, driving margin improvement. These two technologies are great examples of big sustainability trends, coupled with our great innovation, delivering strong growth.

**David Shannon, President Consumer Care**

I hope you found that informative. Whilst Home Care is still relatively small, there is lots of opportunity. It is a great business for Croda, and we are expecting strong growth in the years ahead.

I'll now ask Julia Creasey, our Sustainability Director, to explain how these two technologies deliver significant carbon benefits to Home Care customers who are increasingly focused on their upstream and downstream carbon footprint.

**Julia Creasey, Group Sustainability Director**

Good afternoon, everybody. At Croda our focus on sustainable innovation enables us to develop ingredients, which offer whole lifecycle benefits to our customers and consumers, both upstream and downstream.

Today's case study focuses on the speciality ingredients which we supply for use in fabric conditioner, and as Yong Chuan has just described this includes our ECO bio-based surfactant as well as our fabric care protein.

If we start by looking upstream of the fabric conditioner, then we can support our customers in reducing their supply chain carbon through quantifying the benefits of switching to our biobased surfactant, alongside our operational decarbonisation ambitions.

Today we can deliver an immediate 11% carbon footprint benefit to our customers when they switch to the ECO range of bio-based surfactants, due to the use of the corn-based feedstock compared to the petrochemical alternative.

Our manufacturing site in Delaware in the US is powered using steam that's generated by burning landfill gas, as well as renewable electricity, which is self-generated from solar, as well as sourced from wind.

Since 2018 the increase in renewable energy consumption, at this site where our ECO plant is located has led to a further 6% reduction in carbon footprint to our customers, receiving the ECO product today.

Our 2030 science-based target is to reduce our operational emissions by a further 46% from a 2018 baseline, our Scope 1 and 2 emissions. So, our Delaware site has a decarbonisation roadmap in place already to halve its emissions by the end of the decade. And so by the end of 2029, customers will be receiving a further 9% reduction in the carbon footprint of the ECO product.

But we want to go further than that. So, if we can move to alternative sources of our biobased feedstock such as sugarcane, or even second-generation feedstocks, then we can provide further carbon benefits to our customers.

By the end of 2029 moving to sugarcane ethanol as well as achieving full production capacity at our ECO plant and the operational efficiencies that that brings will enable us to provide our customers with a further 49% reduction in the carbon footprint of the product.

So the actions we're taking in our raw material sourcing and in our operations are really supporting our customers in reducing their supply chain carbon and helping them to achieve their own Scope 3 science based targets, partnering with us as a low carbon supplier.

So we can think beyond upstream then and think about the downstream benefits of including Croda ingredients in a fabric care formulation. Yong Chuan has just described the inclusion of our fabric care protein into a fabric conditioner helps to avoid fabric damage when washing. So we can demonstrate through our lab testing that we can – clothes can be washed twice as many times when our additive is included in a fabric conditioner formulation, before the same level of colour fade or fabric damage is observed.

So one kilogram of our fabric care ingredient can protect 195 kilograms of clothes throughout their lifetime, which is assumed to be on average about 72 washes when we include our fabric care ingredient in every wash.

Consumer studies have shown that on average about 10% of clothing is no longer worn due to washing damage or colour fade, either not worn or thrown away. And so we can assume that one kilogram of our ingredient is therefore avoiding the emissions associated with the manufacture of 19.5 kilograms of this replacement clothing.

So one kilogram of our ingredient will avoid 450 kilograms of carbon dioxide and 130,000 litres of water associated with manufacturing this replacement clothing, when we assume an average mix of both synthetic and cotton materials.

So in summary Croda's speciality ingredients can provide quantifiable supply chain benefits, both upstream and downstream to our customers, as well as consumers.

Through constant innovation we're going to continue to identify, quantify and improve upon these carbon benefits, which will make us the supplier of choice, as our customers and consumers transition to a low carbon economy. Thanks, I'll now hand back over to Dave to summarise.

#### **David Shannon, President Consumer Care**

Thanks Julia. So to summarise, in Home Care we have two technology platforms which deliver improved efficacy and sustainability. They are driving significant innovation in home care markets. We are investing to meet growing demand and are targeting 10% or more sales growth per annum with improving return on sales.

I'll now hand over to Richard Butler who will outline the exciting standalone growth trajectory of our F&F business and how we are driving additional sales synergies.

#### Unlocking the potential of F&F

#### **Richard Butler, Senior Vice President F&F**

Hello everyone, my name is Richard Butler, I am the Vice President of Croda's Fragrance and Flavours business. You may remember that this consists of 2 brands.

Iberchem, a large Tier 2 F&F company acquired in 2020 with a strong presence in emerging and fast-growing markets and Parfex, a smaller French, Grasse based fragrance company acquired in the middle of last year.

Before we talk about the business, I would like to take a step back and talk about the external environment, the competitive environment because this is changing, and it is giving us opportunities.

Traditionally companies supplying into the F&F market have been separated into 3 segments. We have the Tier 1 companies. The big four, IFF, Symrise, Givaudan and Firmenich, collectively having around 75% market share. Global in nature, significant scale and resources, usually with in house raw material integration, and a typical turnover of over £1bn per annum. These companies are tied into the large consumer Multinationals through preferred supplier list participation. These customers are their focus, they are reliant on their presence in large multinational brands.

The Tier 2 companies, as represented here. These are the mid-sized companies, generating sales between £50 and £500 million per annum and making up perhaps 15% market share. The upper end of these are multiregional (like Iberchem), the smaller ones just operating locally. These focus on strong customer intimacy in the small, medium sized locally focussed customer and Indie segments. They aim to be responsive and offer a personalised service to respond to the customer's individual needs. They offer a balance of service, attentiveness, creativity but are still big enough to be secure business partners for customers.

I should say as well, this Tier 2 attitude is ingrained in the existing Croda mentality. Like Iberchem, the majority of the Croda customer base are in the SME/Indie segment of the market as Dave mentioned earlier.

Then we have the Tier 3 companies. More than 200 local, small companies supplying local or niche markets. The Tier 2 whitespace is growing because of the ongoing M&A activity of the Tier 1 players.

When these Tier 2 companies are acquired, they change. They take on the attitude and processes of the new owner who also of course will be looking at cost synergies which impact on the acquired organisation. The typical local or regional SME customer no longer feels important, no longer has the personalised approach they valued. This is an opportunity for us. Our geographic coverage, local teams, focus on responsiveness and creativity makes us a natural destination for these disaffected customers.

So, the Tier 2 whitespace is growing, which benefits us. This would be the case outside of Croda ownership. However, combining the Iberchem model, customer intimacy, agility, quality, responsiveness, a product offer at all price points, with the resources accessible through Croda, the value proposition to customers of all types becomes more compelling.

We have an attitude which values the fast-growing ambitious SME type customer, plus we now have the scale and access to technology of Croda. Croda also has existing long-term relationships with MNCs and major regional customers which Iberchem can now benefit from. As we grow, we are in effect becoming a Tier 1.5 company. Global in reach, global in scale, access to new technology /processes, possibility to develop in house raw materials, ongoing focus on the small / medium sized local or regional customers – meeting their needs.

Historically, a typical Iberchem customer would be a family-owned company, supplying into their local market. The example here is a fine fragrance customer in the UAE. Whereas the typical Tier 1 customers are best described as anything you might see as you walk through duty free in any international airport. Croda's Beauty Actives and Beauty Care businesses have a strong existing position in these brands as well, so we now have the opportunity to leverage their presence and relationships to build fragrance sales.

So in the future we want to be able to say that "both" are typical customers of Croda's F&F business. I don't see us competing head-to-head with Tier 1 companies for core list position, but our offer can certainly be of value to MNCs. An example already seen is where MNCs

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are looking for improved service to manufacturing sites in countries where we have local production. We will talk more about this in a few slides.

So one of the reasons for our excitement is that we see great potential for our model with the way the external environment is evolving. The market as a whole is forecast to deliver between 5 and 6% CAGR, but this differs significantly from region to region as you can see. Today our F&F business has strong presence in the fast-growing markets as the pie chart shows.

When we look at this though we should not forget the importance of Croda's strong presence in the slower growing but very large Western European and North American markets. Using Croda leverage to gain share in these markets is a core part of the plan.

The business plan then is underpinned by 3 growth drivers. First, the standalone organic growth of the business. We are confident that the historical growth rates delivered by this business will continue into the future. Second, we have the sales synergies, the added value that we get by combining the customer bases and sales networks of the two companies. We will talk more in a couple of slides. Third we have the Parfex growth plan. Capitalising on the power of a French, Grasse based brand, capitalising on a developing expertise in natural fragrances. Something of real value in the typical Croda customer base, especially in the premium segments in the Northern American and Western European markets. Of course, we also remain open to targeted acquisitions where they can enhance our business position. So, looking first at the standalone growth. The business model which delivers the results you can see here.

The product portfolio is increasing all the time and we can offer a range to suit the applications and price point according to the local market needs. We are global, present in 120 countries, 13 manufacturing locations, producing in all regions except US.

Pace is often the difference between winning or losing and the Iberchem model is set up for this. In terms of R&D, the Iberchem model is bigger on development than research. Using existing materials to innovate, creating over 200 new fragrance references per month. Croda is now adding these fragrances into our research activity though, seeking new raw materials or new more sustainable processes to make them

So, this is the model, but at an individual customer level the differentiator is the attitude of customer focus, responsiveness, agility. Can do combined with creativity. The end result is that each customer feels important. This intimacy of personal relationship is impossible for the Tier 1 companies to replicate.

Secondly let's look at the sales synergy plan, targeting 48m euros of additional sales in 2025. These are progressing as planned. The synergies are underpinned by Croda and Iberchem having largely different but complimentary customer bases as we can see in the pie chart here. This gives us the opportunity of gaining a share of fragrance business at Croda customers. All of these 6000 customers buy fragrance. Gaining a share of ingredient business at Iberchem customers. In fact, about 30% of the 3000 customers here, also buy ingredients. Business gains from "full formulation" proposals with customers of both companies.

It is also worth mentioning that Iberchem are gaining share at their existing customers because of Croda ownership. Customers feel confident about putting a greater percentage of spend with Iberchem because of the long-term security and investment in them as a supplier. The access to new technology through Croda. A full formulation support capability. And the fact that there is now no risk of their acquisition by another Fragrance company.

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So, what is the value we bring to our customers? Well, the proposition is different for different customer groups. The key though is that we really are set up to offer something to everyone

We are not a Tier 1 and would not want to be seen to have the attitude of some of the Tier 1 companies, but with access to the Croda resources, we now have the power and strength of a Tier 1. This means that MNCs and larger regional majors regard us differently now, especially because the Croda brand already has a strong presence in these customers.

One example of this is in the case study at the bottom of the slide, a large Spanish brand owner and contract manufacturer for own label. Iberchem gained £0.5m of new business because of the long standing Croda relationship at this customer. This added confidence is also the foundation of new business development at two of the Croda MNCs and we see this interest increasing.

The fact that we retain the energy, agility and customer intimacy of a Tier 2 means that we appeal to the SME customer base who want to feel valued, listened to and important, because they are. To these though, through access to Croda ingredients and support, we can offer more value than was possible before. Different from other Tier 2 competition.

As well as this though, we also now have the “total solution provider” capability for those who want it. We can provide the complete fragranced formulation to meet the fragrance trend, the formulation format and the formulation claim – skin protection, anti-ageing, hair strengthening. As a supplier, we have a compelling value proposition for customers of all types and sizes. This is unique.

So, the Full Formulation concept has been mentioned several times today, also referred to as “one stop shop”. This was a real case example, initiated in a meeting by an Iberchem salesperson with a large Turkish consumer goods manufacturer. The boxes on the top attempt to explain the typical process with a customer.

Box 1, we uncover the problem they have, what is their challenge? In this case the customer team is tasked to develop a new skin care range. We research the key market trends relevant to the target market and consumers. In this case wellness, Hygiene, Nature and Sustainability. Our formulation teams then select from the formulation bank or create new formulation concepts. These are fragranced with selections aligned with the market trends and the full formulation samples sent to the customer for review.

The customer has the benefit of short cutting their in-house development process, we have the benefit of entering into their brand discussions and developing sales across the portfolio. The slide images below are from the presentation to the customer team and accompanied the full formulation samples, with the details of what they are and why we have selected them. This particular opportunity is progressing as we speak, and we see increasing numbers of opportunities of this type going forwards.

Parfex, the business that we acquired last year, creates fragrances principally for premium personal care and fine perfumery markets, leveraging the natural raw materials that are available in the region. It further enhances our position in the creation of higher value fine fragrances and will play an important role in our plans to increase our sustainable fragrance offerings.

Of course, sustainability has been embedded in Croda’s business for many years, even before it was a recognised area of value to customers. We see many areas where we can evolve our position now in fragrances. We will see increasing launches of new fragrance collections based on natural raw materials. In 2021 the sales of natural collections more than

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doubled and we expect this to continue. In the area of innovation the fragrance needs are in the Croda research programs – looking at process innovation, new fragrance delivery systems and new raw materials. In this area of complementary technologies – sharing our knowledge can improve fragrance effectiveness, reduce consumption and improve sustainability.

Finally, we plan a new Creation Centre at the Parfex site, focused on the creation of new natural collections. All of this activity supports the Consumer Care strategy to move to a more naturals-based portfolio, more sustainable, targeting premium market segments.

As the leading tier 2 in the market, Iberchem has delivered an impressive 14% underlying compound growth over the last decade driven by its emerging market positioning and fast-to-customer business model. We achieved just under £180m revenue in 2021 with robust margins – an encouraging performance given the impacts of lockdowns in the developing world and input cost inflation.

We remain on track to realise our ambition of creating a 400m euro business in 2025. Underpinned by a robust and proven Iberchem trading model delivering strong organic growth, a synergy plan which is delivering and leveraging the Parfex brand values through the extended sales network.

Return on sales will be broadly in line with peers, with our agile model offsetting our focus on more cost conscious local and regional customers. The increased focus on fine perfumery and natural fragrances provides the opportunity to enhance the margin further. We are investing to deliver sales synergies and continually looking at how we accelerate growth in some of the geographies where we are not yet present in a significant way.

So I hope you can understand why we are excited about the opportunities ahead of us and also why our offer to customers is unlike any other F&F company. We have strong market differentiation, an exciting standalone growth trajectory, our sales synergies are on track, we are realising additional value from our full formulation capability and leading in sustainable fragrances.

You may already be aware that we are holding an event at the Iberchem HQ in May, and we look forward to welcoming you. I will leave you now with a short video about Parfex

[Video]

### Summary

#### **David Shannon, President Consumer Care**

So in summary, we have two big growth engines in Consumer Care – Beauty Actives and our F&F business.

Driven by Beauty Actives' number one position in the fastest-growing active technologies, we expect its strong performance to continue with mid-to-high single digit percentage sales growth. F&F's standalone growth trajectory will continue due to its unique market position and emerging market exposure. This will support further double-digit growth, with additional benefits from revenue synergies to come.

Home Care is also a high-growth business, albeit from a much lower base, and as its two technology platforms drive industry innovation, that will underpin annual growth of at least 10%. And a reinvigorated Beauty Care business is targeting consistent low-to-mid single digit growth enabled by strong customer demand for sustainable alternatives.

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So our expectations are for the Consumer Care sector as whole to achieve compound annual growth over five per cent, before the additional revenue synergies from Iberchem and Parfex. This means that Consumer Care will become at least a £1bn business by 2025.

And although we already deliver sector leading return on sales, our strategy will drive even stronger profit margins ensuring continued value creation and excellent returns. In conclusion, our consumer care business has evolved significantly over the last few years. Today it is highly differentiated comprising 4 businesses, all with market leading positions in the fastest growth areas.

And our focus is on fast growing niches - high margin and high growth. How do we achieve that? By leading in sustainability and innovation – and we are doing that in both. We've increased our proximity to our customers, Consumer Care a global business capable of supporting customers big and small anywhere in the world. And all of that is generating more consistent sales and stronger profit margins, ensuring a stronger growth profile for the years ahead. Let me stop there. All of us are now very happy to take your questions.

## Q&A

### **Steve Foots, Group Chief Executive**

Okay then, let's start.

### **Charlie Webb, Morgan Stanley**

Maybe just first around some of the growth rates and I think this probably most relates to Iberchem, but perhaps Consumer Care as a whole. As we think about inflation and emerging markets, a lot of the charts were saying obviously a lot of growth in emerging markets, but when we think about this inflation hitting the consumer it's probably going to be most in emerging markets, so when you look at Middle East, Africa, parts of Asia and even Eastern Europe, is going to be a big squeeze on the consumer there? So just your thoughts there, whether those growth rates you're kind of citing of the past really hold true as we think about the future here and possible risk of downtrading and what else could happen of that and certainly as it relates to Iberchem given more of that is focused on EM.

And then the second question just on Beauty Care, why has Croda underperformed the market growth over the last five years, I think it was 2011 to 2021 your chart, but just what has led to that underperformance there? I think you showed the market is growing 5, 6%, you've grown 2.5%, so just any thoughts there and what's changing as we look ahead?

### **Steve Foots, Group Chief Executive**

I mean, you know, to say we've underperformed the market in the last five years I think is wrong. I think we've underperformed the market in probably two of those five years. So if you do the compound, you can get there, '16, '17, '18 were excellent years for Croda if you look back at the growth rates and Beauty Care was doing very well.

If you look at 2020 it was all about the Chinese effect and the America trade-war there, we had two issues there and we had the trade flow issue from America and also from China. And we had the Daigou effect, which is quite unusual for Croda, we had two macro effects in one, which hit Chinese sales for that one-year period. So the growth rate for China traditionally has been, you know, high single digits, it was significantly negative for one year, because of those two factors. It's back to high single digits now, so it's a sort of one-off intervention – macro.

So that drove a perceived underperformance, so it was actually China and a little bit in America, everything else was doing well. And of course, we had the pandemic for one year, not much that we want to spend on cosmetics when you can't go out, you can't spend on

cosmetics. So we had two macro effects, two big effects which compounded over two years to give us the issues.

But I think if we look back at – you know particularly '15, '16, '17 and '18, and the run rates there, they're very solid. So, I think, you know going forwards the one thing that's changing and you can feel it, you can see it hopefully – there's a structural shift in sustainability, absolutely. You know we could see this before, but you know listen to L'Oréal, that means huge amounts of project change in their organisation, lots of coding of different formulations. And of course, they're not alone, they are the leaders of the industry, so people will follow.

So I think the thing that's getting us more confident about the growth rates is that combination, you know, I know we're scientists, but sustainability and innovation, you have to have them both, we've got them both. But what's coming, what's more powerful than ever is this sustainability trend which is unlocking value, and you can probably see it – I hope you can see it in every single presentation.

You know it's slightly different – if you saw us three years ago, we had an emphasis on sustainability, but the emphasis now is right at the centre of the business and it's because the growth is there. We can feel it and we're getting into two- and three-year contracts now with multinationals. You know we never did that. That's a clue that they really need us, and we really need them as well. So we're locking ourselves into revenue streams that we didn't have before, so it's giving us confidence to invest more.

I would say that on the whole Personal Care side, but you know for all of us we have to – we as a team, have to demonstrate that through consistency. You know it's nice words, but I think what we're trying to get across underneath this is look at the opportunities, it's not two or three opportunities, it's several opportunities in each of their businesses. And that is the thing for Jez and myself, it's great because we've got lots of opportunities, our challenge is to make sure we're prioritising the investment in the right areas.

And your first question was all about emerging markets – yeah and I'll play Jez in on our logic of how we're thinking about the growth rates and then we'll come back to you.

**Jez Maiden, Group Finance Director**

So in terms of how we're seeing things develop, I think we've got the confidence from that structural change that's going on that allow us to sort of see things going forwards. Clearly, in the short term there is some sort of global economic risk around how that develops, we're not seeing that yet.

You know we're seeing very strong consumer demand carrying on in all of the main markets in which we operate. And we are also seeing a return in the emerging markets, particularly in Iberchem. So last year it was a tougher market for a number of those emerging markets, lower COVID vaccination rates, more of an impact therefore compared with the developed markets. But certainly, we're seeing a progressive growth across those emerging markets. So we expect to be back at those medium, long term rates that we've seen in the emerging markets as well.

I mean clearly, yeah it's quite dynamic at the moment, but I would say the structural things that Steve has talked about in terms of growth, together with what we're currently seeing in terms of performance gives us a lot of confidence over this, even though, you know clearly one can't be completely immune, depending on how things develop.

**Steve Foots, Group Chief Executive**

I think I would add Charlie, the volume price elasticity issue is clearly something that everybody is looking at, more of the consumer goods companies are looking at that – our

customers at the moment. And you can see some stats around that which is quite dynamic. So we're glued, because we have got a lot of price mix in our revenue line, we're obviously glued on volume. We don't really talk about volumes by the way, but actually at the moment we're obviously very much interested in that healthy demand continuing with volumes and we're certainly seeing that continue. So we're not seeing any negative volume as a consequence of pricing going forward.

I think the industry for the first time in probably over a decade it's got inflation right through it. So when your customers are putting prices up and your suppliers are and everybody is, then everybody is putting those prices through. So obviously inflation is rising and the question for everybody is what's the impact of that. Because you can look at that two ways, you can get yourself very excited about a scenario that says actually it's a temporary thing and actually long term this demand is here. But equally you can look at it the other way and say basic fundamentals would suggest that there might be a squeeze at some point, you know, second half of the year or beyond.

Both of those scenarios could prevail. And nobody really – you're probably closer than we are to better understand which one of those will prevail. But either of those – we'll be in a good position. You know it's a relative thing of course.

So we'll watch that, but you know the most important thing is keep our eye on the customers and the projects and making sure we're coded in to more and more innovation projects and we'll just be fine.

**Charlie Webb, Morgan Stanley**

If I could just squeeze one more in really quickly on Croda's view on owning a Flavours business, I mean I get the Fragrance argument around the one stop shop, but flavours doesn't really fit in there. So how do you see that going forward, I know you said it was kind of something you'd look at down the line?

**Steve Foots, Group Chief Executive**

I think we don't rush to judge; we'll say that first. I mean plenty of people – we have plenty of inbounds obviously after the acquisition, quite a lot, you know for people looking at the business. But you know for Croda if we don't know a business, we like to run it first to make sure it can grow. And when we look at that business it's got great growth, it's delivering, it doesn't need a huge amount of our attention, so it will grow, so we'll grow the EBITDA. It's not a distraction for people in the business here. So that's great. We'll continue to hold that.

You know we'll see, so we'll review that on a regular basis. I think a lot will depend on where we see acquisitions and if we need that to fund anything else that we think is really exciting in the core bits of Consumer Care, or in Life Sciences. And if we do then we can make a decision there. But there's no decision short term other than we'll keep running it. And if we can grow the EBITDA then obviously the multiples in that space are very healthy. So you know for every 1 million of EBITDA we grow you know you can get a lot back if and when we decided to sell that. But there is no plan to do that in the near term.

**Sebastian Bray, Berenberg**

Good afternoon. I have three questions please, but they're all quite short. The first is a technical one on quarterly trading. Slide 10 showing the 2% year to date 2022 price increase in Consumer Care, is this an annualised figure, or does it effectively mean if we keep going at this rate, we do 8% for the full year? Thank you.

**Steve Foots, Group Chief Executive**

That was a dreaded question, Sebastian, well done. Jez.

**Jeze Maiden, Group Finance Director**

I was waiting for the other two. So the annualisation from last year. So last year we had about a 17% raw material price increase across the board and that was fairly typical of Consumer Care as well. And that converted to about a 9% sales price increase by the time you allow for those other increases in freight and energy and so forth. So I think that 9% would convert to 3 to 4% annualisation effect this year, so that's the bit that's already in the price as we enter this year. So because we saw that steady quarter on quarter increase in pricing, so that's to roll through 3 to 4%, that's already in – sort of guaranteed if you don't change prices.

We then saw another set of changes, of increases in raw materials for the January quarter, the first quarter. So that has gone through as well and we have fully recovered that. And then – so on top of that therefore we're estimating probably around 5 to 6% on sales price effect so far.

Then it depends on what happens from here, and we thought that we were probably going to see a little bit more of a levelling out in terms of a lot of the raw materials for the second quarter. Given the disruption of the last four or five weeks and the global events and so forth around that then that is pushing raw material prices higher into what would be a sixth quarter and therefore there is a number of price increases going through for the second quarter as well.

So I think that yeah you could easily get to 8, 9% again if we continue to see increases. We might see it level out as we go into the latter part of the year. The key thing is the Croda price recovery model is working exceptionally well, we continue to recover those prices, we don't see any reason why that wouldn't happen going forward. So therefore it will be what it will be, and we will recover it.

**Sebastian Bray, Berenberg**

Thank you. The second question, the reference to the ECO plant on slide 60, in 2023 when the sales are shown as having increased and the EBITDA seems to be settling around 30% is that plant full then, is it fully ramped at that stage?

**Steve Foots, Group Chief Executive**

Dave – and when we'll pass to Jez on the sales side.

**David Shannon, President Consumer Care**

The plant has been running now consistently for just over a year I think as Susanna alluded to and we're really starting to see some great new opportunities coming in from customers. The market is really starting to wake up to the value proposition of ECO biobased surfactants. So we're bringing in lots of new opportunities that are consuming the green EO in the form of green alkoxyates.

**Jeze Maiden, Group Finance Director**

So in terms of the profitability, so yeah, we'll be EBITDA profitable this year, we should be exiting the year into EBITA profitability as well. But essentially, we're still only, you know, around 50, 60% of the potential capacity of the plant. And of course being a continuous plant, which is very unusual for Croda actually the more you utilise the plant the better the economics get. So driving further volumes through is the key way that we improve the profitability of that.

We'll have to spend a little bit of capex downstream, because of course we're not trying to make EO, we're trying to make the downstream alkoxyate surfactants. So we'll spend a little bit of capex to de-bottleneck the downstream. But essentially, we should be able to grow for another seven or eight years before we probably get towards the maximum capacity of the

plant, because we built a plant that was essentially nearly twice as big as what we currently – or what we were then using.

So there's a lot of improvement to come through and this is an unusual plant for Croda being particularly geared to volume, so the more volume that we can develop along the lines that Dave said in terms of the development of sustainable surfactants the better the economics get for the plant.

The key thing for us is that after a difficult period it's going up year on year in terms of profitability.

**Steve Foots, Group Chief Executive**

I think I would add to that Sebastian that this is a great example of when you're disrupting and taking a leadership position, sometimes you have to go through a bit of pain with the investment, you know probably more pain than we'd like, but the opportunity now you can start to see it coming through. And we have always said that we would need the industry leaders to make that change, so L'Oréal you heard that here and Unilever are the ones that are doing that. So that's catalysing further people doing that.

So for us on when we reflect on it, yes, we've had a bit of pain, but you know the investment was very well done and we're investing ahead of the growth and now we're starting to see the growth. And it's great to develop other business as well on the back of that.

**Sebastian Bray, Berenberg**

Thank you and a quick last one.

**Steve Foots, Group Chief Executive**

Third question, yeah.

**Sebastian Bray, Berenberg**

The reference to 33% of the Actives portfolio being biotech on slide 50, if I then go to slide 85 and look at the £160m, £165m of Skin Actives given, is the logic that you've got £55m of biotech sales, firstly is that correct? And secondly what does that give in Personal care, thank you, in terms of share?

**Steve Foots, Group Chief Executive**

Arnaud do you want to kick that off?

**Arnaud Fournial, Managing Director Beauty Actives**

Not really. [Laughter] I just missed all the question.

**Steve Foots, Group Chief Executive**

So the question is around your biotech sales today, if you can respond to that, you know how big is it and then the impact it has in the industry, I think?

**Jez Maiden, Group Finance Director**

What percentage of sales are biotech?

**Arnaud Fournial, Managing Director Beauty Actives**

The percentage of biotech is around 30% for Sederma?

**Sebastian Bray, Berenberg**

Is that equal to £55m roughly, because if you go to page 85 of the slide, it's above 160?

**Steve Foots, Group Chief Executive**

I'll answer that, I mean it's 33%, you can draw your own conclusions to that, but you're not far away to be fair, yeah.

**Sebastian Bray, Berenberg**

Okay, thank you.

**Sam Perry, Credit Suisse**

You've spoken about the various advantages of Iberchem and the ability – well what the Fragrance business brings in terms of offering the last piece of the puzzle, why wait until that acquisition to bring that in, given the distinct advantages in terms of – I'm sure that you would have been able to do this before?

**Steve Foots, Group Chief Executive**

Well if we don't have a fragrance company then you wouldn't be able to do it. I mean you can borrow the fragrance I suppose.

**Sam Perry, Credit Suisse**

I meant more why not acquire into this area before?

**Steve Foots, Group Chief Executive**

Oh, I see what you mean, yeah. Well, we tried to – you know we looked at Iberchem four years before we bought it, we nearly bought it then, we had the ruler on it. But it was Jez and myself we just couldn't get there on value if we're honest. So we've been looking in the space for about five years.

We take our time, we know what we're looking for and our model, our thinking is a bit different to probably what you think. We're not trying to compete with the major Tier 1 players, you know the top four, but we have a different business model, and our model will pick up business in all areas of the business.

And sometimes you've just got to buy yourself time. You know we know what works. That was a very – the reason Iberchem screened well for Croda, it was the best Tier 2, not because it's the biggest, it just had the right geographic exposure, it had the right culture, it's a brilliant innovation model and we'll try and bring that to life for you when you go down. It ticked our boxes whereas plenty of others wouldn't. So sometimes you've got to play a patient game to do that.

But I think the Formulation Academy is the glue that pulls it all together. You know because people come – if you want to really get a brand to market, you're looking for the claim, you have to get a claim that's a bit different if we're moving in the premium and luxury end. And we are the go-to company that can provide the claim. So if you can provide the claim then we can – as Susanna said, you know, it's the sensory benefits of the product, it's the formulation together, it's the fragrance that then goes in there, so then you build it up from there. But it's the claim that hooks people in, the brand development in the Consumer space and the Homecare space. But Richard, anything else on that?

**Richard Butler, Senior Vice President F&F**

No, not really – only to repeat what you said really Steve. I mean we looked at Iberchem a few years ago, we looked at a number of other companies in the interim as well, but none of them were quite right. So, it had been a missing piece of the puzzle for some time, but we're patient about waiting for the right company to fit it, it's as simple as that. If we could have bought it earlier, then yeah. But these things seldom go to plan, do they.

**Steve Foots, Group Chief Executive**

Yeah, timing.

**Sam Perry, Credit Suisse**

And just on the biotech piece, you highlighted the four big ticket items, what roughly would they be in terms of sort of revenue, ballpark?

**Steve Foots, Group Chief Executive**

Well, if you look at a product launch history – I mean in Arnaud's or Susanna's presentations they're normally – a successful product launch in Croda is like a \$1m over three years, you know it's not a needle mover but there's plenty of them.

I think in these big bet areas, the key point to get around is it's not big capex, it's big opportunities. Therefore, the ones that Nick talked about – of four platforms, so underneath each platform there's several products. And you know we're starting to look at \$10m opportunities there, rather than \$1m opportunities in each of those products in those platforms. So some of these are very significant.

We have been working with quite a number of them for four or five years, you know you've heard us talk about Enza and Nautilus and we haven't really talked to you about that. You hear it quite a bit more now because some of these products are now starting to come to market. You know you buy R&D ahead of time and now we have to scale up.

The interesting thing is as I talk to Nick – is that you know the demand is there for them, the products are there, and also actually you know the challenge is the manufacturing scale up, which is the issue, which is normally the easy part. And that is something that we have to – so we're catching up with the manufacturing scale up, because we know the demand is there, and that's a good place to be because the innovation is there, it's proven in the laboratories, we just need to scale it now, but Nick do you want to?

**Nick Challoner, Group Chief Scientific Officer**

Yeah, I think the only thing to add to that – I think as you alluded to Steve is the best way to consider each of the projects is containing multiple products within it, multiple product outputs. Each of those might be between 1 and 10 million, which is kind of a traditional Croda hit rate. You know we've got an interesting model where we can find actually ways to seed the market with new technologies quite early, get the customer feedback, so we don't have to wait until the end of the process to get it through. And I think each of those might therefore contain, 10, 20, 25, 30 million, you know over the lifetime of the innovation projects that we do.

But you know one thing with R&D is nothing is guaranteed, we've just got to make sure that our model works effectively to get as many products as we can.

**Steve Foots, Group Chief Executive**

Okay, yes Sebastian.

**Sebastian Satz, Barclays**

I've got two questions in biotech as well and then one on Homecare. How should we think about costs, I assume you have to be competitive; do you have to be at par with synthetic alternatives? Can you get there if you don't have the scale? Or does it not matter as much because of the value proposition that you bring?

**Nick Challoner, Group Chief Scientific Officer**

So I think in the presentation Sebastian we tried to articulate that we're not really about building big biobased building block materials. You know Croda's innovation model is about

niche and speciality actives. So, some of the cost barriers that you're talking about, or the price barriers perhaps don't exist, or not to the same extent that we're looking for.

I think if you went back 10 years ago the techno economics of biotech would be prohibitive, both the strain engineering to be able to produce the materials, but also importantly the downstream processing to actually enable the output and the separate and the scale up were very – weren't really there available. I think the industrial transformation is supporting that now.

But you're absolutely right, one of the major elements of this in biotech is to make sure you get the right economic output and you get the – you know picking and developing the strain is right at the beginning of the process, it's probably the most important decision you make before you move on with the rest of it.

**Sebastian Satz, Barclays**

And you talked about gene editing, how do consumers perceive that if it has explicitly or implicitly a GMO label?

**Nick Challoner, Group Chief Scientific Officer**

Yeah, so gene editing I think was in the Sederma presentation, my reference was to synthetic biology and other people might talk about it as genetic modification. If you went back, again 10 years, and tried to introduce this material within the consumer care application it wouldn't have got through the door.

I think that what people recognise now is the bigger headwinds that customers are facing around sustainability is starting to trump some of the decisions. And it was a rather perverse risk that they were perceiving in the past, there wasn't really any scientific risk, it was more of a – you know a marketing risk that we were dealing with to try and eliminate it. Now, I think that certainly the leading consumer companies are starting to educate their clients in a different way, and they recognise that it's going to be very difficult to achieve their sustainability targets, their decarbonisation targets unless they consider, at least consider this synthetic biology is a route to generating new materials.

**Arnaud Fournial, Managing Director Beauty Actives**

And on synthetic biology, so products that we will sell will not be genetically modified – the organism that produces it is. So that's something every different. And we have already spoken to big customers, and they said if your active is not genetically modified we see no problem if the way you manufacture it by a microorganism that is genetically modified, we see no problem. It is also an evolution where we go.

**Sebastian Satz, Barclays**

And the last one on Homecare, how excited would you be about the category if you didn't have the ECO plant?

**David Shannon, President Consumer Care**

Yeah, I mean the ECO plant plays into the trend we talked about with regards to sustainable cleaning. But that is just one area of sustainable cleaning. I mean there's lots of other areas of sustainable ingredients that gets us into that space. So even without the ECO plant we'd still be very excited about Homecare, yeah absolutely.

**Steve Foots, Group Chief Executive**

I think what you're seeing is a structural trend which is alike to and aligned to Personal Care, a big move to sustainable ingredients. You know you talk to all the Homecare customers, most of their brand development is in sustainable ingredients. And if it wasn't in sustainable

ingredients that we probably wouldn't be as excited, but because it is, you know, we're very excited.

**Charles Eden, UBS**

I just wanted to ask on the margin target obviously above 25% going forwards. We have heard a lot about the growth opportunities and clearly growth is the priority. How should we think about the margin progression on a sort of three-to-four-year view? Is it consistently converging back up towards, if not getting to that 30% that Personal Care used to be? How should we think about the annual progression on margin, because clearly you haven't put a hard target out for 2025 like you have on sales for Consumer Care?

And then my second question is – a lot of talk on innovation, sustainability and you know I completely agree that's where the customers are going. How should we think about R&D budgets, capex – you know you've talked in the past about 6% of sales as a normalised level, is that still the right level given all of these exciting growth opportunities?

**Steve Foots, Group Chief Executive**

Well let me answer the second one and I'll play Jez in on the margins. Yeah, I mean the way we look at it is there's quite a lot of – because of the growth there's quite a lot of growth and there's a lot of capex numbers that are floating around with you. The way we see it is the capex for Croda is not really changing, we're not getting more capital intensive, you know we don't need more capital incrementally to get the revenue streams we need.

It broadly screens for 5 to 7% of capex we need as a percent of sales, with the one addition on that which is the Healthcare investment that sits on top. And we'll talk to you in very much the same way later in the year where we'll talk about all the growth opportunities there and the big bet R&D projects, you know it's really exciting. But we are investing incrementally more in that space because of the big opportunities ahead and you know we'll bring that to life with you. But generally fine, we're fine with the capex numbers of sort of around 5 to 7% plus the Healthcare on top.

You know in there we are still working very hard on decarbonisation around the business. And there will be some capex in there, but it's not as big as you think. You know for us we're different to the big players where there's big capex there being quoted. We don't think we need that; we think a lot of is just clever Croda management in doing that, with some new technologies. But we think we can hit the decarbonisation targets with modest investment there.

In terms of R&D, I mean the exciting thing is the R&D is really picking up, you know we acquired Avanti with 125 people, most of those are R&D. We're now at 280 people, virtually all the incremental people are R&D. So we're buying R&D businesses and we're investing in them.

Iberchem you'll see – a very significant part of that is R&D as well. So I think in the acquisitions that we're buying they are more R&D focused anyway, so we feel all we need to do is just keep consistent investment, nothing significant. But we are investing a bit more in the big scale projects, yeah, not capex, big opportunity projects, just to make sure you get that right. And they are great. But there's a handful of people that Nick needs to really think about that, it's not armies of people and empires of people.

So again that's – you'll see the R&D spend for Croda naturally move up as we become more of a knowledge – what we're doing is we want more knowledge in the business. That tends to mean you want more scientists, dermatologists, pharmacists, ergonomists – you know and more and more drug delivery experts. That's where the direction of travel is. But I don't

think you're going to see a massive, significant change in R&D spend over the next two or three years.

**Nick Challoner, Group Chief Scientific Officer**

Can I just add to that Steve, the other thing that historically Croda has been very good at is the hit rate from our innovation pipeline. So, the proximity to customers always means we get a better chance of getting product out there. You know we're not working in the blind and I think that's one of the critical elements of this.

So we can still be as effective, you'll see that illustrated in the NPP numbers, you know the percentage of sales we're getting from products launched in the last five years, or which are patented and we're managing to improve that year on year and in line with the investments that we're making. Jez.

**Jez Maiden, Group Finance Director**

The other thing to mention on capex of course is that we've got the reinvestment of the proceeds from the Performance Technology disposal and so forth, with over £750m to come. And we like organic capex for that, for a big chunk of that reinvestment because it's lower risk, it's faster, we're not paying away goodwill, so it's a great way for us to invest around strengthening the growth here in Consumer Care and driving that growth in Life Sciences.

On the margin target, the reason that we've been a little vague I guess in terms of saying over 25% and we were just short of 25% last year is because of the different business mix in there. So first of all the Personal Care business as we used to know it, Beauty Actives and Beauty Care, that delivered 30% return on sales. We don't see a reason for that to certainly deteriorate from that level.

We have the Fragrance and Flavours business around mid-teens. And we have the Homecare actually just in the mid high single digits in terms of that margin mix, giving us the 25% overall.

So what we want to do is we want to continue to see Personal Care at 30% plus. We definitely believe as Richard referred to that we can bring the F&F up to the same level as the Tier 1s because although it's a smaller customer – we're targeting the smaller customers in emerging markets and therefore maybe you might have slightly lower pricing there, of course it's a more agile business and it's got less cost in it. So we can probably make that difference up. So we can start to look at the bottom end of the 20% type level.

And then the key driver in Homecare through this focus on the combination of ECO and the fabric area is that we want to drive up to our 20%. Generally, we're looking for at least 20% return on sales in those businesses.

So when you put them in the mix that's what gives us the confidence that we can drive the return on sales up into the – you know to be north of 25%. Exactly how that flows will depend on the different growth rates, because of course if you're very successful at growing F&F, we know that's dilutive to the overall percentage, but we're driving a lot of shareholder value. So that's why we're a little vague in terms of what it will be, but it will be into the high 20s in our view.

**Charles Eden, UBS**

Thank you.

**Steve Foots, Group Chief Executive**

If we can call it a day there, I mean please do – if you want to join us just outside for a drink, We've got the team here and by all means spend some time with the team.

If there's a key message that we want to try and get across really, it's trying to showcase the breadth of the opportunities and why we're excited across all of the businesses in Consumer Care. Hopefully that came through. And you can take that information away and start to look at that, certainly ask the team if you want.

And the other thing is it's all about meeting the team, you know it really isn't just about Jez and myself, we have got a deep team. And it's a group of people that work very well together with one thing in mind, which is to add great value in front of customers. And they know their way to do that, well-schooled in Croda and great in front of customers. And that's what we like.

So, we'll leave you with that. Thanks again for coming and if people want to hang around outside, you're very welcome to. Thank you.

END

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