Croda International Plc

Results for the 12 months ended 31 December 2024

Call transcript

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

Steve Foots, Group Chief Executive
Good morning, everyone. Great to see so many of you here at the London Stock Exchange, welcome to all of you who have joined us virtually as well. I'm here with Anthony Fitzpatrick, our interim CFO. We'll both run through our respective sections of the presentation set out on this slide. As soon as we've done that, we will be very happy to take your questions.

It's been another transitional year for Croda following two exceptionally strong years in 2021 and '22. Sales growth was weaker than we'd hoped but proactive actions to reduce cost and drive efficiency enabled us to deliver profits in line with expectations. Overall, this performance is still a far cry from where we want to be and we've continued to take further steps to strengthen the business by making Croda more focused and more efficient.

So, I'll start with a summary of results, and talk about constant currency changes to give you a better understanding of the underlying trends. Group sales were down 1% or up 2% excluding the £48m of Covid lipid sales in the prior year. Sales volumes started to recover and increased demand for innovation helped sales of New and Protected Products to grow by 6%.

The adjusted operating margin was down year-on-year with 2023 having benefitted from high-margin Covid lipids. However, it improved half-on-half supported by strong operating execution with price discipline and proactive cost control. Overall whilst PBT was 12% lower than last year, it was within our guidance range at £273m, or £260m on a reported basis. Cashflow remained strong and we applied working capital discipline and reduced our capex after several years of significant investment.

The performance across our businesses was mixed. Sales grew 7% in Consumer Care and 2% in Industrial Specialties with higher volumes partly offset by lower price. Sales in Life Sciences declined 6% but were back to growth in the second half excluding Covid-19 lipid sales, helped by a recovery in Crop. As a result, the margin in Life Sciences also increased from 18.3% in H1 to 22.9% in H2.

2025 has started well with good revenue growth in all businesses and markets. I will come to outlook later but (as you can see from the arrows on the bottom of the slide) we expect Consumer Care and Life Sciences to grow this year with Industrial Specialities broadly flat.

So, turning to the market environment which remained subdued throughout the year but with more stable inventories and demand in most businesses and regions. In Consumer Care, we saw a continuation of the trend we talked about previously with local and regional customers winning share from multinational customers for whom conditions remain more challenging. The chart on the left-hand side illustrates that shift in hair and skin markets, the two largest Beauty categories. That is good for Croda as our average selling prices are higher to Local and Regional customers, a reflection of the additional value we add through our formulation expertise and broader offer. These smaller customers are innovative and fast to market with high quality and competitively priced products. And we have responded to this shift by

leveraging our local footprint, and reallocating resource to support smaller customers in the regions.

In Life Sciences the picture is mixed. In Pharma Consumer health and veterinary markets remain challenging, particularly in Europe. Whereas biopharma markets have seen some improvement, reflected in the performance of our excipients and lipids, and more encouraging consensus data for the major biopharma companies, as illustrated on this graph in the middle column. In Agriculture, we've seen increasingly stable crop commodity prices and that correlated with the improved demand we saw during H2. Inventory levels are mixed so it is too early to say how demand will evolve through 2025 but we are cautiously optimistic.

Whilst we are feeling better about the market environment and trends we are seeing, we are not sitting back and simply waiting for markets to rebound. We are going further with the actions that I talked about last July to drive sales growth, increase our margins and improve returns.

There are 5 challenges that we are focused on. First, it is clear that our markets are continuing to fragment, with local and regional customers continuing to grow. Second, we are seeing renewed customer appetite for innovation which requires us to reestablish R&D intensive relationships post the pandemic. Third, while most strategic investments we've made are performing well, we need to see a bigger contribution to profits. Next, inefficient utilisation remains a drag on our margins. And finally, cost base inflation has been running ahead of revenue delivery, so our cost base needs to be realigned with our sales.

Our ability to address these challenges whilst prudently managing our invested capital will lead to improved returns. I will come back to these priority areas in turn shortly but let me hand across to Fitz to go through the numbers in detail. Fitz.

Anthony Fitzpatrick, Interim Chief Financial Officer
Thank you, Steve. So, running through a summary of our performance. Sales of £1.6 billion declined by 4% on a reported basis, or by 1% at constant currency, with adjusted operating profit down 13% to £280 million.

As you will recall, our guidance for full year adjusted profit before tax was £260 to 280 million at constant currency. We have delivered £260 million on a reported basis, equivalent to £273m at constant currency, so profit performance was in line with guidance.

We have modestly increased the dividend by one pence to 110 pence per share despite lower earnings, reflecting our confidence in the future earnings growth and strong cash performance, with free cash flow of £181m up over 9%.

Bridging from adjusted profit before tax to reported profit before tax at the bottom of the slide, you can see there was a £37 million charge from the amortisation of acquired intangibles and exceptional items were a further £15 million charge.

Turning to the group sales bridge and moving from left to right on the chart. As you will recall, in the fourth quarter of 2023 we shipped around $60 million of Covid-19 lipids, which did not repeat in 2024, equivalent to a 3% headwind to Group sales in the year. On average, our raw material basket was 4% lower in 2024, following a 12% reduction in 2023, which enabled us to selectively reduce prices to customers as part of our regain efforts, contributing to the price/mix decline of 5.5%.

Despite the volatility over the last 2 years, not least with raw material costs and sales volumes, we've remained disciplined on price, with our gross margin remaining consistently high and

stable above 60%. For 2025, we are expecting modest raw material cost inflation, meaning the price/mix headwinds that we saw in 2024 are likely to diminish.

Volumes were up by 7%, with an encouraging performance in Consumer Care and Industrial Specialties, and the beginnings of a recovery in Crop Protection in the second half of the year. Along with the modest inorganic contribution from the acquisition of Solus Biotech, which completed in July 2023, constant currency sales were up by 2%. Currency translation was a 3% headwind in the year, leading to an overall reported sales decline of 4% inclusive of CV19 sales.

Now looking at sales performance by region. Delivering fast growth in Asia continues to be a strategic priority and it was encouraging to see continued growth in a tough environment, with sales up by 7% in constant currency. In LATAM, sales were flat with good growth in Consumer Care offset by lower sales in Crop and Pharma. Sales in North America were also broadly flat, aided by resilient demand in Biopharma. Sales in EMEA were down 6%, due to weak demand in Life Sciences, but were flat excluding Covid-19 lipids as the majority of these sales in 2023 were booked in Europe.

Moving onto the next slide and bridging the operating margin from 2023 to 2024. We saw a headwind to margin of 1.3% from the absence of Covid lipid sales, as well as the mix impact of F&F continuing to outperform. Bounce back costs, including the return of a variable remuneration charge in 2024, were a further 1.8% headwind. We were however able to offset a proportion of these bounce back costs with proactive cost actions, which Steve will talk about more.

As a result of continued investment to capture future growth opportunities, investment costs were a headwind of just under one percentage point to margin in 2024, although clearly, we are confident these investments will drive future returns.

Driven by higher sales volumes, we saw 2.3 percent of margin expansion because of these higher activity levels and the effect of volume re-leverage. Overall, these movements resulted in operating margins moving from 18.9% in 2023 to 17.2% in 2024, at the top end of the 16-17% guidance range we gave at the start of the year. The sequential margin improvement shown on the right hand side from 16.6% in the first half to 17.7% in the second half was encouraging, and reflected higher sales volumes as well as these cost actions.

Turning to divisional performance. Consumer Care sales of £920 million were up 4% on a reported basis or by 7% at constant currency. This comprised a 5% reduction in price/mix, an 11% increase in sales volumes and a 1% contribution from sales of Ceramides following the acquisition of Solus Biotech. Sales to local and regional customers were up by 11%, as those customers continue to outperform the market and because our go-to-market model enables us to serve customers of every size.

By business unit, F&F was the standout performer, growing by 18% in constant currency, ahead of the underlying markets it's pointed towards. Beauty Actives delivered sales growth of 6% in the year led by Asia. Beauty Care was flat with growth in all regions at constant currency apart from EMEA. As you can see on the right-hand side call out, lower prices (and lower raw materials) helped enable a 9% increase in sales volumes. Encouragingly, our gross margin percentage was up modestly year-on-year, helped by a higher proportion of sales to local and regional customers which are higher price.

Demand for innovative ingredients, as well as ingredients differentiated by sustainability remains strong, with NPP sales growing by 11% at constant currency and NPP sales increasing to 43% of total sales in Consumer Care.

Moving to Life Sciences. Overall sales of £504m were down by 16%, or by 6% when adjusting for currency translation and the prior year contribution from sales of Covid-19 lipids. Pharma sales were down 2% on this basis with lower sales into consumer health and veterinary markets, particularly in Europe, but growth in our strategic focus areas, such as lipids for drug research and delivery systems for protein-based drugs.

Sales in Crop Protection were down 16% at constant currency, comprising a 31% decline in H1 against a strong 2023 comparator and 6% growth in H2 as we saw volumes start to recover. NPP as a proportion of total sales increased to 31%, with our strategic focus areas in Pharma being a higher proportion of sales.

Without the higher margin CV-19 sales in 2024, the operating margin was down year-on-year, though positively it did increase from 18.3% in H1 to 22.9% in H2, due to higher sales volumes in Crop Protection and again, careful cost control actions.

Turning next to Industrial Specialties. Industrial Specialties plays an important role in our operations, contributing to the efficiency and profitability of our shared manufacturing sites by leveraging core technologies in high-value industrial markets and providing volume demand on all shared sites. Sales of £204 million were down 1% on a reported basis but up 2% at constant currency, comprising a decline in price/mix of 7% more than offset by volume growth of 9%.

While most of our sales in Industrial Specialties are direct to customers, a proportion are made through a supply agreement with the purchaser of our divested businesses and we do not directly control demand. Encouragingly direct sales, which we do control, were up by 5% on a constant currency basis, reflecting our proactive efforts to drive sales.

The adjusted operating margin of 7.6% was up by 300 basis points, due to favourable product mix, particularly in H1, as well as higher sales volumes.

Turning now to the cash flow. Cash generated from operating activities of £319 million was supported by a £21 million working capital inflow, following payment for Covid-19 lipids shipped in the fourth quarter of 2023. As you can see in the chart on the right-hand side, we have managed our working capital position carefully, with working capital days on hand reducing from 105 to 94.

Capital expenditure of £138 million also reduced reflecting careful scrutiny of all investment programmes. As a result, free cash flow increased from £166 million to £181 million. After accounting for the covered dividend payment and other cash movements, net cash flow was positive £7 million, with net debt reducing slightly to £532 million.

This net debt position translates to a conservative leverage ratio of 1.4 times, comfortably within our guidance range of 1 to 2 times adjusted EBITDA.

Over the last five years we have invested selectively in projects as a key element of realigning our portfolio in-line with the structural drivers of growth, strengthening our position as a high value-added ingredients business.

As you can see from the slide, you can think of this investment in three parts: capital expenditure in the core business, acquisitions, and the Pharma capital investment programme. Our total capital expenditure has been elevated in recent years because of this strategic commitment; however, we would expect capex to moderate as assets are commissioned in 2025 (with 2 new greenfield sites) and we utilise the capacity we have built. Future capital investment will therefore be highly selective.

With the acquisitions of Avanti and Iberchem in 2020, and more recently Solus Biotech in 2023, we have also deployed capital on acquisitions to refocus our portfolio. Our priority is now about delivering returns from these investments, and so we would expect any investments in the near term to be limited to complementary next-generation technologies and partnerships.

We are also nearing the completion of our pharma investment programme, which received both US and UK government support, and provides us with the capacity necessary to deliver commercial scale volumes. We are carefully controlling our capital base, contributing to delivering consistent improvements in our returns on capital.

To finish up my section, there are some technical factors on this slide but let me highlight a couple of aspects. Firstly, we would believe that raw material cost deflation has bottomed and we expect a 1% increase in the first quarter. In line with my comments about a recent period of intensive investment, we expect a modest increase in the depreciation charge following capex in recent years, as well as a small working capital outflow. Back to you, Steve.

Steve Foots, Group Chief Executive
Many thanks Fitz. Ok, as I said at the beginning, our performance is not where we want it to be and I am going to expand on the actions we are taking to address that. There are three things we are doing to drive sales growth. Leveraging our proximity to customers, converting our innovation pipelines whilst continuing to strengthen them, and driving further value from recent investments.

And there are two actions that underpin margin recovery. Driving higher sales volumes to enhance utilisation rates and implementing operational efficiencies to offset inflation and the incremental costs of investments coming online. Through these actions we will restore earnings and returns to where they should be.

So, starting with customer intimacy with local and regional customers. Investing in our footprint to get closer to our customers has been a key part of our strategy over the last 5 years, particularly in higher-growth markets. Consumer needs vary significantly, especially in emerging countries and this has fuelled the rise of fast growing local and regional brands. We're adapting to these changes by increasing our local innovation capabilities. That is driving growth with the proportion of sales to local and regional customers growing 11% to 80% of total sales in our consumer care business.

It's a similar story in Crop where fragmentation is accelerating and there are important new players beyond the big 4. Again, you are seeing that represented in our sales figures with local customers represented on this graph, up 7% this year in very challenging markets. As I have said, our prices are normally higher to smaller customers because we provide them with additional support, so less concentration in our customer base is creating more opportunities for us in multiple markets at good margins.

And Asia remains a very exciting market for us, particularly for Consumer Care where we are seeing strong growth in key markets such as India, China and South Korea. We are benefitting from prior year investment in sales and R&D which has brought us closer to customers there and are selectively building manufacturing capacity in fast-growth countries.

In response to ongoing market fragmentation, we are re-imagining innovation to ensure we are supporting both local customers and global brands. We have also rejuvenated our interactions with customers, leveraging clever science and R&D to build deeper relationships built on our technical expertise. This is addressing the gap created in the aftermath of the pandemic when customers were dealing with huge supply chain issues and were focused on marketing existing brands rather than developing new products.

We have sustained investment in R&D, increasing research intensity in both Consumer Care and Life Sciences to well above 4% of sales. We've seen a big uptick in customer-driven innovation where we work in close collaboration with them to meet their precise performance requirements or go after a specific opportunity.

And we are launching more new products which is driving higher NPP. We will bring more new ingredients to market in 2025 than in 2024, such as Luceane, a new skin active obtained from marine biotech, which reduces premature skin ageing by five years in one month. We are also continuing to expand into adjacent pharma markets, launching a bioprocessing aid which significantly reduces the risks associated with biomanufacturing for our customers.

Coming on to strategic investments in more detail. As I said, we are seeing benefits from much of what we have done, but that is not a universal picture and we need to work harder to ensure investments deliver strong returns. There are three buckets.

First, core capex investment which is focused on fast growth countries. So, for example a new surfactants plant being commissioned this year in Dahej to meet very strong demand in India. As Fitz has said, we are in the latter stages of a period of intensive investment that has taken total capex above historic run-rate of 6-8% of sales. We expect it to trend back towards those levels as we utilise the capacity we have built, and future capex will be highly selective.

Next M&A, which saw us acquire Iberchem and Avanti in 2020 followed by Solus Biotech in 2023 as we refocused our portfolio on the big structural drivers of growth. We're pleased with how our F&F business is performing, with sales growth up 17% CAGR significantly ahead of competitors. This reflects its strong position with local and regional customers particularly in emerging markets. We will continue to allocate capital to drive growth, including construction of a new fragrance facility in China.

And we are very focused on driving Solus Biotech forward. As we saw with Iberchem, new businesses always need a year or two to start delivering on their potential, but we have more work to do to ensure the acquisition delivers the growth rate and profit conversion it is capable of. Solus is now fully embedded into our South Korean operations and we are driving the sales of ceramides and phospholipids through our global selling network which is generating a great response from customers. We are also increasing innovation with a new product launched recently to promote scalp health, taking ceramides, traditionally used for skin care, into the hair care market. And finally, Avanti which covered its acquisition cost in record time due to our involvement in the Covid vaccine. Beyond that, sales of lipids for drug research have grown strong double-digit percentage CAGR since 2020.

And the third bucket is investment to position Pharma for a strong future, a programme that has been running since 2021. As well as establishing the site we acquired in Alabama as a global centre of excellence for lipid development, we are scaling up production capacity with a new multi-purpose facility in Lamar and a second scale up site in Europe, both being built with government support. Whilst new mRNA drugs are yet to be commercialised by our customers, we have strong commercial relationships with big pharma companies who are leading this development and are well positioned for break-out growth.

We are just as focused on growing our margins, and therefore driving a further improvement in utilisation rates at our 11 shared manufacturing assets. These sites are regional production centres and each comprise 4 or 5 core processes, manufacturing ingredients principally for Beauty Care, Crop Protection and Industrial Specialties as well as consumer health. They account for approximately 70% of Group sales volumes and 60% of Group sales.

An overall utilisation rate for these sites may be directionally helpful but does not provide an accurate picture as the optimum rate varies from one process to the next. Instead we've provided the rolling average of absolute sales volumes at these sites so you can see the impact of the sale of the majority of our industrial business in June 2022 and the restocking/ destocking cycle, as well as how volume recovery has progressed so far during 2024.

If the recovery continues at the current rate, we should be back to pre-pandemic levels within the next two years. We are also reviewing the efficiency of our footprint to ensure we strike the right balance between profitability in the short term and providing us with the capacity we need for medium-term growth.

So, we are driving higher sales volumes, particularly of less differentiated ingredients, whilst making sure we maintain our gross margin – the margin that we make on raw materials in our sales prices. This is already having a positive effect with volumes up 9% year-on-year in both Beauty Care and IS which combined account for almost 70% of volumes produced at these sites. Of the remaining 30%, Crop Protection is the most important business, where we started to see volumes recover in H2.

As I mentioned, the new organisational structure that we implemented at the start of the year has had a big impact on the way that we do business – we are faster and more effective with our customers. And we have identified ways to modernise our processes and simplify the way we do things, thereby reducing costs. We've created a new centre of business excellence to share best practice and coordinate workstreams that are targeting operational efficiencies across supply chain, operations, distribution and back-office support. Cost disciplines that were established in 2024 are also being embedded to ensure that benefits are captured permanently.

The near-term benefits of this programme are set out on the right-hand side, totalling £40m. Versus a 2024 baseline, we are targeting £25m of savings in 2025, derived pretty equally from payroll costs and other opex, with a further £15m of incremental savings in 2026, and more beyond that, as we begin to benefit from these modernisation initiatives. The estimated cash cost to realise these benefits totals £20m which we expect to take as exceptional restructuring charges split across 2025 and 2026.

Finally, coming to the year ahead and what we see as the building blocks of our 2025 profit performance. Firstly, the impact of inflation is expected to represent a headwind of approximately £10m in 2025.

Secondly, we have continued to invest in assets and opex to support our long-term strategy and expect incremental headwinds from additional depreciation and other costs of approximately £15m in 2025. Much of this relates to the two greenfield sites I mentioned, the new surfactants plant in Dahej, India and a new multi-purpose facility in Lamar, Pennsylvania for Pharma scale up. £25m of operational efficiencies will offset a large proportion of these costs in 2025.

As shown in the final bar, we anticipate growth will further drive profit performance. In terms of outlook, we expect both Consumer Care and Life Sciences to grow sales in 2025, with continued volume recovery and the price/mix headwinds we have seen diminishing. Operational efficiencies should significantly offset inflation and the incremental costs that we expect to incur as I have said. Overall for 2025, we expect Group adjusted profit before tax to be between £265m and £295m at constant currency.

So, in summary. As I said at the start, whilst we have seen progress this year as we continue to emerge from a very unusual period, we are a long way off from where we want to be. There is lot to do in the year ahead and we are lazer focused on restoring profitability, leveraging the

great portfolio that sits at the heart of our business. We will do this by driving sales by leveraging our proximity to customers, stepping up innovation and maximising returns from all recent investments, driving margins through increased utilisation and reducing our cost base, and delivering strong earnings growth and improved returns through progress in these areas alongside prudent management of invested capital. So let me stop there and hand it over to you for your questions.

David Bishop, Investor Relations Director
Thank you, Steve. Just as a reminder to people joining via the webcast, please type in your question, and I'll ask it on your behalf. While we prepare the mics for questions in the room, the first question, Steve, is what assumptions are you making for the midpoints of guidance at £280 million PBT?

Steve Foots, Group Chief Executive
Yes. I mean, you can see that. You've probably worked it out already, most of you in the audience. But I mean, the way to look at that is probably mid-single digit revenue growth for the mid-guidance with a bit of margin improvement is what we're probably looking for. And if you look at that at both ends, at the bottom end of the guidance is low-single digit revenue growth with probably no margin improvement. At the higher end, it's probably high-single digit revenue growth, with a bit more margin than mid-guidance. And our assumption there is two or three things. The macro environment is not improving.

I think we can all see that. But and it is a but, our markets are starting to stabilize, both in inventory and in demand. So, we're starting to see – the consumer care markets have been there for most of the year, but we're starting to see a pathway back for Crop to a normalized environment for Croda. We can see the early signs of that. We would expect gradual improvement to continue through crop. And in Pharma, the new pharma part of the business is growing very well. You can see that with Avanti. We expect the consumer health part of that in Europe to start to gradually improve as well. So that's the sort of shape of what we're looking for from a guidance point of view.

David Bishop, Investor Relations Director
Okay. Think Charles with the first question. If you could introduce yourselves when you ask the question.

Charles Eden, UBS
All right. Thanks. Charles Eden from UBS. Firstly, on the shared site volumes, thanks for the chart on slide 25. That was helpful. Can you just comment on what you have seen for this trend in Q1 so far? Is it continued improvement? And then second question just on Pharma and the Avanti asset. Obviously, a lot of capex investment in that business over the last few years. When are you expecting to see sort of a more meaningful step-up in revenue and profits from that asset given that level of investment? Thank you.

Steve Foots, Group Chief Executive
Yeah. I mean, on the volume recovery, I mean it's early days and we've had a good start. But January is January. It's not 12 months of the year. And so we're encouraged with the start. But we expect in those medium – those targets for the year that we get decent volume growth coming through that. And we're seeing that already. The exit rates in quarter four were helpful to that, and that's continued in January and February. But it's still too early given the volatility and given – I think the order book for Croda, as you know, is four to six weeks' visibility.

So, we're here to guide through the year. It's only a few weeks' time before we chat again in April and we can give you an update on how quarter one looks. So, I think it's not getting ahead of ourselves too early. But the gradual improvement should continue. What we're seeing is consistent with the guidance. In terms of Pharma, I mean, yeah, Pharma, it's a great

story. All the stats that we see, and you probably look at, is that there's more mRNA projects coming forward, driven largely by about 12 to 15 pharma companies, and we're very well positioned in a lot of them.

I think the way we should look at 2025 is that you should see that build in the sample revenues that we get. You see that in the Avanti numbers. You would look at that through that lens. We're encouraged with that. But, of course, we're in a lot of clinical trials. And in many ways, the science has to deliver ahead of Croda.

We can put the samples into them. So we're waiting for a lot of these customers to commercialize their materials. And then if there's anything significant there, of course, we would communicate that. But I think 2025 is more about sample revenues through the clinical programs and then anything materializes other than that, we would talk to you about that. I think later in the year if we do have Capital Markets Day, which is likely, we can unpack some of the Pharma opportunities in a bit more detail, which is part of the plan.

Matthew Yates, Bank of America
Thank you. It's Matt Yates from Bank of America. Steve, throughout this sort of process over the last 18 months or so, you've maintained the stance that product margins have held up pretty resiliently. Again, you've mentioned that in the slides. I guess the problem is we don't see the gross margins at the divisional level or even business line. So to some extent, we're taking your word for that.

When you say that Beauty Care had price/mix minus 9%, how do I reconcile that with the statement that product margins are resilient? That looks to me like you've given away above and beyond just the raw materials. And then in the outlook, when you talk about prioritizing volume to drive utilization rate, is that also inferring that you're having to give away a bit of price in order to regain some business?

Steve Foots, Group Chief Executive
Yeah, good question. I mean so, the way to look at Beauty Care, you can see it. We've tried to shine a light on one of Fitz's slides. We're up 9% in volume. We're winning share in volume. And that's across both the local and regionals and also in the multinationals. And that's part of the strategy. We have learnt – if we've learned one thing in the pandemic, it's that we have to be a bit more flexible at the bottom end of that Beauty Care range with price. So we've given a bit back and we've bought back business that's rightfully ours. The 9% negative in price, two things. And two-thirds of that is a function of raw material. It's not a function of competition. So, that minus 5% to 6% is just because raw materials have come down the year before, and you can see how big price is. So, you wouldn't see a gross margin change there.

The other 3% there is around really that price point where we've given a little bit back, particularly at the multinationals. But what we see in the mix is as we are supplying more and more to the local and regionals, there is a bigger gross margin percentage that we get in the local and regionals than we do in the multinationals to the tune of about 2 percentage points to 3 percentage points. So, moving to local and regionals in the mix is helpful to us. It's higher sales prices. It's higher margins. The cost to serve that is higher, of course. But that minus 9% is a combination of those two factors. The margin stability is because of the mix that we're getting. So, we are winning business. We are doing what we said we'd do. And we think Beauty Care is getting back into a rhythm which we like and we expect that to continue. Sebastian.

Sebastian Bray, Berenberg
Thank you. Sebastian Bray of Berenberg Bank. I would have three, please. The first is on Agriculture. Has anything changed in the nature of the product mix that is now coming back? In this sense, what reassurance can investors take that this is not just a one and done if the ag cycle turns against Croda in 2026? Can you give any idea of your exposure to biologics?

My second is on the new pharma investments. Is this a one-way bet on RNA or are the new facilities genuinely multi-use in the sense that they can make excipients for biologicals as well? And my third is on the relationship with Cargill in Industrial Specialties. My understanding was that there was some type of renegotiation coming off of the toluene volumes that Croda had arranged at the time of the divestment of its old industrials business. Are you optimistic about the potentially extracting higher margins from these renegotiations? Thank you.

Steve Foots, Group Chief Executive
All right. Well, let me do the first two, and I'll pass to Fitz who runs IS, by the way. So, he can give you a much better answer than I can. Yeah. I mean, the ag market, we like three months of data before we call it a trend. We are seeing that in crop and we saw that in the second half in our order book as well, and when you look in the order book, the product shape is pretty typical of what we would expect, which is our big customers ordering, again, products that they've just had in stock. So that's starting to come back. Still too early to call the year, but we're cautiously optimistic, as we've mentioned in the presentation.

So, we wouldn't expect a different change. The interesting thing, though, when we look at the stats of the big four in R&D, 75% of the R&D activity with the big four or five is in biological actives, which is really quite interesting because they have to move away from toxic herbicides and pesticides. Our job from a business-to-business point of view is to move them that way.

So, we can get them to use less with our current delivery systems, but we can innovate more with the biological active ingredients with our new systems as well. So, we're pushing them through to this move to biological actives. And as many of you have seen probably in Pharma before in liquid injectables and the like, and Lonza and everybody, they moved biological actives 10, 15 years ago. So, it's the crop industry catching up with pharma. So, we're pretty excited about where that technology is going to lead.

I think on new pharma, the mRNA opportunities, if it's a question about the site and the multipurpose nature of that, we've built that so they can make lots of different lipids, so any shape or form. Don't forget, Avanti have got 3,000 lipids in their library. They can make 3,000 lipids now. So, if Pfizer or GSK or Sanofi wanted a lipid, there's 3,000 that they've got, and they've got another 3,000 in their heads, we think. Some real brilliance there. So, they have a capacity to tweak things. And that's what will probably happen. And so we're catering for that in the site, but we can do other things in the site as well. That site can do other things for pharmaceuticals, it can do other things for consumer, if we needed it, too, as well. So, there is flexibility there, but its primary focus is to build out this mRNA train, if you like. And then, I think, IS, Fitz, just comment on Cargill relationship.

Anthony Fitzpatrick, Interim Chief Financial Officer
So, we've set up medium-term supply arrangements with them, and that's working exactly as we designed it. So I think that's working well. There's no renegotiation. I think what you may be referring to, we gave a non-compete undertaking as part of the transaction, which obviously matures at some point during this year. But it's not a renegotiation of the way that it works with them.

The relationship is very good with Cargill. It's very healthy. We have to work backwards and forwards because it does cut across most of our shared sites. What I would say is that while we don't control their demand, that's their markets and the markets that they're in. There are some products that we make that they cannot. And so, the nature of that relationship is very important in both directions. So, we do manage that very carefully, but it's working very healthily.

David Bishop, Investor Relations Director
Just before we come to other questions in the room, I've got a couple on Ag that have come in from Artem at Redburn who asks what's the breakdown of ag demand by customer size and region and what are you anticipating for the year? And also, from Alan at Lazard's who wants to understand whether the stronger performance in H2 was influenced by normal seasonality in Crop Protection and Seed Enhancement.

Steve Foots, Group Chief Executive
Yeah. Well, my comments there are about the Crop Protection business rather than Seed because Seed's agnostic to this cycle. In the seed industry, it's a service industry. Farmers send their seed in, and we coat that. So, it doesn't have an inventory issue like Crop Protection. So Seed is just ticking along in its normal way. I think in Crop Protection, what you'd expect is the multinationals to come back stronger, the top 4, because the only reason that they're not ordering is because they are sitting on high stock level.

So, we would expect that to come back. But the interesting thing is when we looked at the next 200 or 300 customers that we've got, it's been growing quite healthily for Croda, which is our ability to pick up these small customers, the innovative ones in emerging markets and western countries as well. So you're seeing that. But the big growth, the order book looking better, general trends improvement, we would look to the big four, of course, to strengthen. So, in terms of the strength of that we would expect those top four to come back more strongly. And the second question was more about...

David Bishop, Investor Relations Director
So, was there any influence of seasonality on the stronger performance in H2 in Crop Protection?

Steve Foots, Group Chief Executive
No, I mean, we would say it was probably normal seasonality that we would expect. I mean, normally in the Crop Protection industry, the two big planting seasons for demand is around March time and October. So they're the two. So the interesting thing is when we get to April, the first planting season, we can get a good understanding of what that looks like.

David Bishop, Investor Relations Director
Yeah. So, the recovery was beyond regular seasonality that we saw in the second half of the...

Steve Foots, Group Chief Executive
Yeah, but the recovery is a function of as much about stable demand and getting back to normalized inventories than it is about breakout demand growth. It's about getting back to a normalized area.

Lisa De Neve, Morgan Stanley
Hi. Lisa de Neve from Morgan Stanley. I have two. So, the first one is on innovation. I mean, you've detailed in your slide deck you've seen a 50% increase in your cost from innovation projects in 2024. I mean, can you share in which sub-segments you're seeing that, what type of customers? And also, how should we really think about that in terms of actual volume and sales growth?

And the second one is really a bit about your portfolio. I mean, if you look at your entire portfolio today, I mean, how much would you consider to be high value ingredients and how much of that do you consider to be less differentiated? And following on from that, a bit broad, but how committed are you to all these ingredients being part of your long-term Croda portfolio? Thank you.

Steve Foots, Group Chief Executive
Yeah. I mean, so there's one on innovation and one on portfolio. I mean, on the innovation, I mean, it's mainly in Consumer, beauty. So in many ways, we're in three value chains. We're in beauty, we're in pharma and we're in ag. This is more around Croda adapting in an agile way to reposition some innovation with the small, local and regional customers. And when we look at our innovation stats, that's the quickest way of winning business, because what you're doing is you're personalizing your innovation to individual customers, and those customers are moving quicker.

So, they are ramping up quicker. We can see it in the stats in India, China, Korea. Some brilliant companies. And they're out with very good products, very good claims, sophisticated targeting in the countries, for the countries, and then moving in many ways ahead of the multinationals. And in a trading down environment as well, they really flourish as well. So, you're seeing that in China, seeing that in America, and we expect that to continue this year.

So, our customer activity is probably the best way of getting near-term business. So you should see that coming in over – once you commit to a project 6 to 12 months, you should get business from that. Difficult to say what it means in absolute sales and volume, so we can't give you that answer. But fragmentation is a good thing for Croda in beauty. And when we hear a lot about Croda gets a lot of read across from L'Oréal and Estée Lauder and the multinationals, we understand that. It's 20% in our business. 80% in our business is all of these flourishing customers that have an environment to really blossom. And we are seeing that, we expect that to continue. So, our Consumer business is – I think all we mentioned is the innovation is now really pointed towards a lot of that and making sure that we do what we can to intensify the research for them.

And in terms of the portfolio, I mean it's an interesting one. The area that we've learnt in the pandemic has really been – the area of undifferentiation has been that Beauty Care is £420 million. It's about £80 million of that. And we have to be more careful and flexible with the price. You're starting to see that – we're growing 9% volume. We're winning back business, winning share. So, you'll see Croda adapt to that. It shouldn't have a big impact on margins or profitability because of the mix effect.

And in crop care, it's a pretty similar tale in that. That 20% of their revenue is in what I'd call less differentiated, where that's really with the top four multinationals. And again, a bit of price flexibility there is needed, but while we're growing the rest. So, it's just nuances and adjustments commercially to what we need to do. And the rest of the portfolio is we're very pleased with everything. We've just got to grow it all. The interesting thing is we're one of those companies that have invested quite significantly in the pandemic, and we'll get the benefit of that.

But while we're doing that, we have to protect our profitability through some cost management. But we're investing, and we think investment is a good thing for Croda. We're investing particularly in, not just Pharma, but particularly in Asia. And you're seeing that we're consciously now starting to move manufacture into Asia. We moved R&D in Asia – into Asia five, six years ago. We think manufacturing now has to follow. So India, China, Korea. We've got Japan, we have Singapore. We've got an ideal manufacturing footprint now to really capture more growth.

David Bishop, Investor Relations Director
Thanks, Steve. So, I'm just going to take one from the webcast and then we'll come to Ranulf and then Nicola. So, both Isha at Stifel and Georgina at Goldman Sachs are asking about your comments on volumes at shared manufacturing assets. And they're asking whether they – whether the recovery within the next two years also relates to utilization rates at those assets and therefore to margin recovery.

Steve Foots, Group Chief Executive
I mean, yes, the way we should look at that is we've sort of indexed it on the base from 2019. Utilization rates now are about 69%, so they're gradually increasing. So, to get to 80%, we think there's two jumps through the next two years to get there. Back to the comments that we had about the sectors, you've got a mix effect and we've got some price flexibility in the undifferentiated end. But net-net, we shouldn't see a huge difference there. I mean, if anything, the mix should move more to Consumer Care and Life Sciences in those sites as we get more growth coming through, because that's what we want overall in the end.

And the Cargill volumes ultimately are there for a purpose at the moment. But actually, we could see a day where those Cargill volumes diminish over time because we're using the assets for Consumer and Life Sciences. And I think the way to look at that is it's pushing capex out for us because we want to use the assets. We've got capacity in there, and we want to free the capacity up for Consumer and Life Sciences primarily. But anything else from you, Fitz?

Anthony Fitzpatrick, Interim Chief Financial Officer
I think one of the implicit questions as well is where does your margin go if you get your operating rates back to those sort of levels that Steve's described. I think the way we think about it is it's probably low-20s, if all we do is think about those 11 core sites, takes us to those low-20s, those sorts of margins. The rest – remember that those sites aren't all of our costs. They are only a proportion of the overall. And therefore, there's a lot of action and mix around the rest of it to how we then drive the rest of it. So, we would imagine, if you get back to 80%, we'd have a margin around 20% for the overall business.

Ranulf Orr, Citi
Hi. Ranulf Orr, Citi. Sorry, staying on the same theme, I suppose, I'm keen to better understand how you see that capacity utilization really improving, given the volume outlook over the next two years in Consumer and Life Science. And the reason, I suppose, I feel concern is that the Industrial Specialty business is a very large part of the volume. You've seen volume declines of, I don't have the numbers, but I think above 50% on a three-year stack in that business. A lot of that volume is not due to come back. So, how does the capacity utilization improve as much as you seem to suggest it will?

Steve Foots, Group Chief Executive
Yeah. If you look underneath in the core markets, you have Beauty Care and Crop, both should continue to deliver healthy volume growth. But then, of course, you've got other supporting businesses as well, like home care, consumer health. They all add up together. I think industrial – looking at our industrial business excluding Cargill, should have volume growth in there as well. But I think the way we should look at it is most of the volume growth certainly in the next couple of years will be driven by Beauty Care, Crop, plus supporting volume from these other sub-businesses as well.

Anthony Fitzpatrick, Interim Chief Financial Officer
Yeah. No. I think you're absolutely right. So it's just the business that we control in Industrial Specialties is actually growing in volume terms. So, again, it has a role at the sites, but it also provides flexibility for the rest of the growth in Consumer Care and Life science, as we said. So that part we do control is growing well.

Nicola Tang, BNP Paribas Exane
Thanks. It's Nicola Tang from BNP Paribas Exane. I wanted to ask a bit more about price/mix. It sounds like you're not assuming – or assuming it's been less of a headwind than it was last year. But given what you said on expected slight input inflation, at least what you're seeing so far in Q1 and also thinking about the mix element given local and regionals – higher price point for local and regionals in general and also thinking about consumer health and so on coming

back, I was wondering why you weren't expecting more from a price/mix perspective through this year? And then the second question just on M&A, which you highlighted as the second pillar within investment. Could you talk a little bit about priorities and current pipeline? Thanks.

Anthony Fitzpatrick, Interim Chief Financial Officer
So, yeah, on price/mix, you'll have seen that our sales performance in 2024 saw a negative price/mix impact of 5.5%, more than offset by the strong volume recovery. What we've said in the guidance is that that headwind will diminish. We're very good as a company forecasting quarter-on-quarter movements in raw material costs. And the guidance that we gave in the pack is for Q1 2025 sequential versus Q4 2024, where we're saying that we're expecting a 1% increase in average raw material costs.

And just for interest, that's driven primarily by the biobased raw materials. If that continues through the year, then, obviously, we're looking at a better environment for pricing because what the gross margin details that we've given you show is that the model for Croda of passing on those cost increases or decreases in our prices remains strong. So, we may get a bit of a tail from price mix, but at the moment, we've only really got visibility of where raw material costs are going in the first quarter.

Mix should continue to be positive. So, within our guidance, we're anticipating that most of the top line growth comes from volume, but there should also be a small contribution from price/mix.

Steve Foots, Group Chief Executive
M&A. Our main focus is on those three businesses, amongst others. We're really pleased with F&F. You can see the F&F industry having a great time. In a trading down environment, people use more fragrances. That's what happens, not just at the big multinationals, but the local ones. And we're benefiting from that as well as the main players. And the position they have in emerging markets is a very strong one. So, they've been capitalizing on that. We've been investing – you might see in the disclosures, we've invested in R&D in Grasse; a significant investment for their business in Parfex, which allows us to really target the skincare market, particularly in beauty from French fragrances. And that's mainly for, well, more around Asia, Northern Asia markets, big opportunities there. And we've also put investments in China as well. So if that business is ticking along extremely well, we expect that to continue. It's a good management team, young team. Average age in that group, that business is 37, 38. So very well positioned.

If you look at Avanti, Avanti we've talked about is all about pre-clinical sampling, as fast as it can for these clinical programs. And you'll see evidence of that through the sales CAGRs that we're picking up with that. And they are the sort of preeminent research company for that. And then the plan is, obviously, as they scale up and go through clinical programs, we'll capture that in our manufacturing facility. So, we're very pleased with the performance there.

And then, thirdly, Solus, its started slowly because they had a lot of distributors that were sitting on a lot of stock. So revenues were slow to come whilst they were running down the stocks. But we've repositioned some of their products; it's fair to say. And the big area of opportunity for us is in ceramides near term. We have a very big pipeline for ceramides. Ceramides goes through all aspects of beauty, in skin and hair. So, we'll take ceramides to the top of skincare through Sederma. But we'll also take ceramides to hair care, and you're starting to see that. So, there'll be some new launches, patent protected launches from Croda coming out there. So I mean, ceramides will drive the near-term performance, and then you've got the phospholipid business, which is likely to take a little bit longer because it's into pharmaceuticals and drug delivery. And that will take a little bit longer. But we're getting good growth there. So ceramides first and phospholipids coming after that.

David Bishop, Investor Relations Director
I've just got two quick questions from the webcast and then I think we're up to date with the questions that have come in online, and then we'll go to Charles. So the first question is, is there any H1, H2 seasonality in your guidance, any weighting?

Steve Foots, Group Chief Executive
No. We would expect just a normal delivery now for Croda back to normal. So there's no second half weighting to this. We would expect to hit the ground running this year.

Anthony Fitzpatrick, Interim Chief Financial Officer
Yeah, I think historically, we'd seen quite a bias of more like 53%, 47%; first half, second half. I don't think we see it going quite that far, but it's certainly first half versus second half weighted in terms of how we think about the year.

David Bishop, Investor Relations Director
And the second question relates to margins of different technologies within Pharma, given the capital that we've put down behind lipids in particular and excipients more generally. So, the question is, are they higher margin than Life Sciences as an average?

Steve Foots, Group Chief Executive
Yeah. I think it's fair to say, you can see the Covid-19 profitability. You can draw that out. It's definitely not at that level, but it's certainly not far away. And it's above the average. But of course, we want to see the revenue start to come through with that, which is the priority about commercializing through preclinical. So, yes, they are higher prices and higher margin, but we want to just see the projects commercialize is the most important thing.

Charles Eden, UBS
It's a quick clarification, Fitz. Just on the 20% margin you talked about for sort of recovered utilization, you're talking on the assumption nothing else happens, right? So, if there's no uplift from anything else, like Pharma. That's not your medium-term aspiration. Just wanted to clarify that?

Anthony Fitzpatrick, Interim Chief Financial Officer
That's all else being equal. We're just trying to give you a sense for what the re-leverage effect is just for those sites we could imagine that that would drive through. But there's more to be done to then drive incremental margin.

Steve Foots, Group Chief Executive
Just to add to that, there's a few levers that we're pulling for margin; that's one of them. But the utilization rates alone, will not get us back to 25%. They'll get us to 20%. Clearly, quality revenue growth is going to get us there. Cost control and cost management will get us there, and then the mix improvement in the business as we drive through to luxury and premium and pharma. So, there's probably four levers, and all of those will help to get there. But I think all we're calling out is on that one piece. That's one stepping stone, a big stepping-stone, but there's others as well.

Charlie Bentley, Jefferies
Great. Thanks. Charlie Bentley from Jefferies. So, just a clarification, just on the operating rates. That 69%, is that the exit rate as at Q4? Is that the four-quarter moving average? Because I would have expected it to be maybe a bit higher than that given the step up in growth that you've seen in the second half in IS.

Steve Foots, Group Chief Executive
Look, it's a good question, and as Fitz alluded to on the slide, because we've got multiple processes at each shared manufacturing asset and all of those have different optimized

utilization rates. The utilization rate metric is directionally helpful, but it lacks precision, which is why we're giving you the moving average of the sales volumes. But you're right, the full year number for utilization across 2024 is in the high 60s. So, the exit rate is obviously higher than that by association.

Charlie Bentley, Jefferies
Okay. And then just secondly, just on Crop, Steve, you're talking about the growth you're seeing from emerging markets being a kind of a contributor on Crop Protection. I mean, is that – should I read that to be just China? Because the thing we're obviously seeing from the innovator perspective is that they're losing – we're seeing some share loss, right?

Steve Foots, Group Chief Executive
It's not just China. It's India, it's Indonesia, it's Southeast Asia. And it's actually quite weighted. But the point about China is you saw a lot of capital investment go into generics in China, and that went in about 2022, 2023. So that's playing out. And they've been on the market competing with some of our big customers. So, we're picking up some business there. Whether that continues in any shape or form, I don't know. But they'll be another – you should see that like Beauty Care, some of these big beauty care players now are on the global stage.

There are one or two crop companies that are starting to do that come in. The jury is out as to whether or not they become established or not. And I think we'll watch that. But we can, obviously, pick some business up with those as well. But I suspect over the next year or two, it's back to a normal – they'll continue to grow. But the big growth for Croda will come from the big four just getting back to a normalized trading environment.

Charlie Bentley, Jefferies
Great. And just very finally, on the dynamics in Crop, as the year ended and into the start of this year, I mean are you seeing any kind of increased urgency from customers to order, given concerns around our supply chain, tariffs, so on and so forth?

Steve Foots, Group Chief Executive
I mean, we looked at that. Certainly, before Christmas, we thought, if anything, you might see in the industry, not just a Croda thing, that people are playing games with getting ahead of the tariffs. We haven't seen that. Certainly, I'm not seeing that in our environment. Who knows where tariffs are going to be in the end.

But I think when we've done our review of tariffs and the likely impact of tariffs it's relatively limited for Croda because most of our revenue – 70% of our revenue that we make in America, 70% of it is from American assets. So the only trade flow that we're looking at is about £100 million of revenue from the UK and Europe into America. So we'll just manage that if that comes along.

We don't see in the order book any games being played because of that. I think, if anything, what you're getting back to is normal, established visibility for Croda pre-pandemic levels for most of our markets. So that four to six weeks is normally what we see. So, we've had that for most of the year. We just need Crop to come back further.

David Bishop, Investor Relations Director
Okay. And then final question from Ranulf.

Ranulf Orr, Citi
Yeah. Thanks. Very quick. Can you just break the Flavours and Fragrance like-for-like growth down just into price and volume, please?

Steve Foots, Group Chief Executive
Yeah, it's mainly volume.

Anthony Fitzpatrick, Interim Chief Financial Officer
Price is positive, but the vast majority of the growth came from volume.

David Bishop, Investor Relations Director
No more question, Steve.

Steve Foots, Group Chief Executive
Great. Well, thanks very much, everybody and we'll see you on the call in April. Not all of you, but some of you, hopefully. Thank you.

END

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