

Pre-AGM Shareholder Event - Thursday 13 May 2021 at 2.30pm
Transcript of the Q&A session

Shareholder Question:

It's fantastic to see that Croda is playing such an important role in the vaccine rollout. Are you able to tell us more about Croda's involvement?

Steve Foots:

It has been a great story and continues to be a terrific story for the organization.

It started when we acquired Avanti in the middle of last year. Avanti have deep research in lipid nanoparticles and were working quite closely with Pfizer amongst other organisations. We were able to scale these products up very quickly, which culminated in Pfizer getting first to market with the vaccine in early December 2020.

So through our innovation we helped to get Pfizer and the BioNTech partnership first to market and that was brilliant. Croda's ingredients are in the biggest blockbuster drug of its generation serving the biggest medical crisis of its generation as well. We have been thrilled with all of that.

We will probably help to support 2 billion doses this year, and this chimes well with our purpose of using our Smart science to improve lives. I can't think of a better project that Croda's committed to.

The final point I'd make is it's not just about lipid nanoparticles in terms of our vaccine work. You know, we bought a company three years ago, Biosector, based in Denmark, and we also had traditional technologies in Croda with high purity excipients. So, these three technology platforms together are all supporting the vaccine rollout. Today, we've got well over 60 projects in the COVID vaccine space.

We're not just supplying Pfizer and BioNTech. We're now supplying most of the COVID vaccine products that are coming on the market. We're playing an influential role. And as I said, everybody connected with Croda is just so proud that we're doing our bit to save lives in the way that we are.

Shareholder Question:

Can you tell us how you've managed through the COVID crisis so far?

Anita Frew:

Steve gave a great example of how the company responded from a vaccine program perspective. And it was truly wonderful to be part of that. We had to harness the whole power of the organisation really to make those commitments.

But if I take a step back and look at how COVID unfolded, I'll give you a perspective from the Board. And then I will hand it over to Steve, and he'll give you, I think, the executive perspective on how they were handling things on the ground.

From the Board perspective, I think the most important thing was that we put safety and our employees at the heart of everything we did. So, that was really the first consideration. And if you remember, the crisis actually started in Asia. So, we had the Asian team running the first few weeks of the crisis. It then became quite apparent, quite quickly that it was going to be a global event. So, management of the situation moved to the global crisis management team.

We decided to have the Board meet weekly. Not for formal board meetings, but really just to hear what was happening on our sites around the world, and how we were helping our employees work from home, what was happening from an operation's perspective on site, how our customers were feeling, how our employees were feeling. We also contributed what we were seeing on other boards, because in a time of crisis, no one really has a monopoly on wisdom. We wanted to take all of the knowledge of all the board members and try and apply that to deal with the situation the best we could.

Another thing we did was, and Jez can maybe comment a little bit on this after Steve, we did a thorough stress testing on the financials and the balance sheets throughout this process, because again, no one knew how long the crisis would last.

So the Board looked at a range of different scenarios. That gave us the confidence that when it came to looking at whether we maintained the dividend, in a world where lots of organizations were cutting the dividend, we had looked forward, stressed the balance sheet, and realised that we could continue to pay the dividend that we had declared to shareholders.

There is a broader picture to those discussions because you're not just looking at the dividend and return to shareholders, you're looking at how employees were treated, how we treated customers, how we treated suppliers through that. So, we looked to all stakeholders in the round. We didn't furlough any employees. We didn't reduce their salaries. We made nobody redundant. We continued to help our suppliers with payment terms. And obviously, we paid the dividend, and we continue to invest in the business. We had two principles really there; one was fairness to all, and the other was consistency across the piece.

So, it was a busy year for the Board in the company, as you can imagine. And I'll let Steve maybe say a few words about some of the things that we undertook and some of the feedback we had from our employees during the process.

Steve Foots:

Last year was unprecedented, unimaginable, and unexpected. We started last year in a positive mood, and we finished last year in a very positive mood. But in between there was something in our careers we've never managed before. And as Anita said, the priority for the company was protecting our employees. Every employee effectively was working in a slightly different environment. So, that was the overarching priority.

We stepped up our communications, that was myself included, as well as the whole senior team. We had lots of town hall meetings, lots of small chat groups, just trying to make sure that we were doing everything we could to protect everybody and do what we could to accommodate them in a different environment. We felt we've done that very well.

I think financially the priority was always to try and keep factories running. Fortunately, with support from the governments around the world, we did that very well. We didn't lose any of our factories for any length of time, which was really a credit to the management teams at the sites. We kept the R&D sites operating as well.

We also gifted to the local communities we operate in everywhere around the world. So, that's things like giving PPE, or supplying free of charge ingredients for hand sanitizer gels. A great example is in places like Brazil where we just donated free of charge food to the local favelas around our neighborhood. There was enormous satisfaction in doing all of that and all our employees got involved as well.

I think the other thing as well we did well was using a lot of employee polls and surveys just to test the temperature. Mental health was our big concern and continues to be with the people working in difficult conditions. So, our job there was to try and improve mental health. And we've had things like quizzes and coffee chats, even cocktail sessions as well. We tried to lighten the mood as well and do the right thing.

So, all in all, I'd like to think that we supported everyone throughout the pandemic and are in great shape. And we've got a very engaged organisation as a consequence of that.

Jez Maiden:

I think from a financial point of view, we had refinanced the group's debt position in 2019. So, that was very good to have achieved that ahead of COVID happening. That left us in a strong place. The key for us was evaluating the resilience of the business model and just testing it in different scenarios. We worked out that as long as the majority of the factories could carry on making product, and we could ship to customers, then the company was going to be profitable and cash generative. Therefore, we can start to think about actually expanding and investing in the business and expanding through acquisition.

Of the three scenarios that we focused on, we did a base case, we did a downside case, and we did a severe downside case. And in all of those, we were clear that the group would be able to continue as a going concern and continue to operate. Actually, as it turned out for 2020, we came out slightly ahead of the base case that we modeled. So, it's slightly better than the least negative case that we evaluated.

Shareholder Question:

We have a couple of questions that have come in from ShareAction in advance of the meeting. First of all, there's one in relation to energy and climate change. ShareAction congratulates Croda for signing up to be a net zero company and they want to share the opportunities that they felt the EP100 initiative presents. The question goes on to point out that the International Energy Agency estimates the improvement in energy efficiency will deliver over 40 percent of the greenhouse gas emission reductions that are required to meet global climate goals. And the chemical and petrochemical industry represents the largest contributor to energy demand worldwide accounting for 10 percent of global energy consumption. So, the questioner wants to ask us to commit to signing up to a leading corporate energy performance initiative called EP100, and to have a follow-up meeting with ShareAction to discuss the opportunities this offers us.

Steve Foots:

A very good question and very topical for Croda as well at the moment. We're fully aligned to EP100 and the wider climate action group.

The first thing I would say is that energy efficiency is critical to delivering our targets. The chemical industry is in the spotlight like many because it's a high energy user, and whilst Croda is probably towards the lower end of that because of our batch-to-batch processing, we still have a big contribution to make.

Scope 1 is the real issue for the industry. I sit on the U.K. government chemistry council, and that's something we're wrestling with. For Croda, the challenge is, how do you grow your business through volumes and financial success whilst reducing your carbon emissions? We had a meeting with our top 100 managers this week about how we are delivering against that. I get the top 100 leaders of the company together to ensure this has been hardwired into the way we work.

The big central area for Croda is around decarbonisation. We now have decarbonisation roadmaps in place for 90 percent of our emissions around the group. We are looking for two things really with that. It's to drive low carbon investments going forward for each of the sites, but it's also to derive positive behavior change generally. We're not looking just at education here. We're looking for behavior change and we are starting to see some really important wins there.

That's a journey we're on. We have set some very ambitious targets, as you've probably seen, and it's certainly embedded in our remuneration as well. We think that's really important to embed this behavior right down the organization. We are really proactive in delivering against this in the organisation.

Anita Frew:

We always value engaging the ShareAction. We will keep the dialogue going on this.

Shareholder question:

In relation to Croda's policies related to insecurity of work and living hours ShareAction thank Croda for our engagement with them and the Living Wage Foundation and recognise that we are an accredited living wage employer, which is one of the most important steps that we can take to alleviate work poverty.

The question goes on state that the number of hours worked and the security of those hours can affect the amount of pay that employees take home. And almost two-fifths of working adults in the U.K. are given less than a week's notice of working hours, which makes it difficult for workers to plan financially and unknown work commitments. The Living Wage Foundation have launched the living hours standard, which provides an opportunity for leading employees to provide those working for them with security.

The questioner wants to ask the Board, to give an overview of Croda's approach to setting contracts in relation to the measures set out in the living hours standard.

Anita Frew:

Thank you to ShareAction and Living Wage Foundation for the question. It's really important that all companies focus on this. And it's very dear to our heart. We fully endorse your approach and we fully support the living hours standard measures. We've had an internal process of looking through whether we can confirm that we meet these.

I know this morning we met with ShareAction and the Living Wage Foundation. We know that all of our direct employees meet all the standards you require. We're just checking with the third-party suppliers we use but we're fairly confident they do too.

We've agreed this morning that we'll start to take part in your diagnostic process, which seeks to verify that we meet those standards. That's the first step really towards getting accreditation from you as a living hours employer. So, we're there, we support you, and we're going to work through the accreditation process with you. Thank you for raising it.

End of questions