

Delivering returns for our stakeholders



"A year that proved the robustness of our strategy and business model, the talent of our people and the importance of our Purpose."

Anita Frew
Chair

Overview

In this my fifth year as Chair introducing a Croda Annual Report, I can report that we have delivered a resilient performance despite the most subdued market conditions that our industry has seen for a decade. This was a year that proved the robustness of our strategy and business model, the talent of our people and the importance of our Purpose, Smart Science to Improve Lives™.

I am pleased with our performance in four key areas. We saw no reduction in our industry-leading profit margin, we delivered stronger cash generation, we maintained a healthy innovation pipeline and we invested in new capacity to drive future growth, most notably bringing the North American biosurfactant plant into operation for 2020. We also returned £266.9m to our shareholders, combining growth in ordinary dividend with a special return of excess capital. Although we experienced lower sales, we responded well, continuing to invest in future opportunities whilst keeping our cost base lean and fit for the future.

A strategy to stand the test of difficult markets

Sales and profit were slightly lower than 2018, reflecting difficult market conditions in Personal Care and Performance Technologies. Core Business sales declined by 0.2% in reported currency to £1,265.9m (2018: £1,268.7m) and by 2.3% in constant currency. We broadly protected profit, with Group adjusted operating profit 0.8% lower in reported currency at £339.7m (2018: £342.5m), 1.8% lower in constant currency. Profit before tax on an IFRS basis decreased by 4.9% to £302.3m (2018: £317.8m), reflecting higher interest costs and an exceptional charge for our programme to reduce costs.

Personal Care, our largest business, experienced slower demand as trade headwinds impacted two of its biggest markets, in North America and North Asia, but nevertheless maintained its profit and innovation pipeline. Encouragingly, it experienced a return to sales growth in the fourth quarter.

I am optimistic for continued growth in our high value Beauty Actives and Beauty Effects businesses, increased differentiation in Beauty Formulation and the opportunities offered through our deep understanding of our customers' sustainability needs.

In Life Sciences, the rate of development of new, more complex drugs and sustainable agricultural products is creating exciting opportunities for Croda. 2019 saw record sales accompanied by an improved margin. Growth in speciality excipient delivery systems for Health Care and in differentiated adjuvants in Crop Protection provide an excellent platform on which to build further and match the scale and profitability of our Personal Care business in due course.

Industrial markets globally saw a marked slow down and Performance Technologies experienced a disappointing fall in sales and profitability. This was a reflection of poor automotive demand and general economic uncertainty across broader industrial markets in Europe and North America but, despite this short-term weakness, the fundamentals for this sector remain attractive.

A new Purpose – taking our commitment to sustainability further

After over 10 years leading our industry in sustainability reporting, the Board has developed, in conjunction with our Executive and our employees, an ambition for the next 10 years, through to 2030. We have rolled out our new Purpose, Smart Science to Improve Lives™. Our ambition is to become the most sustainable supplier of innovative ingredients. Working with the Cambridge Institute for Sustainability Leadership, we have developed a plan to harness our smart science, our people and entrepreneurial culture to provide solutions that better benefit our customers and meaningfully impact the wider world through the United Nations Sustainable Development Goals (SDGs). We have committed that, by 2030, we will be Climate, Land and People Positive, so that we have a net positive benefit to the planet. We are excited about this ambition because, not only is it the right thing to do, it is fully aligned with delivering superior performance for stakeholders through Croda's innovative and increasingly sustainable ingredients.

Aligning sector strategies with our Purpose

We will only be able to deliver our stretching commitments and Purpose if we have clearly aligned strategies for our sectors. During 2019, the Board and Executive Committee reviewed these sector objectives. As well as a strong alignment with the megatrends which influence our markets and drive our growth, each of our sectors has a strategy with a line of sight to our shared Purpose and the SDGs.

In Personal Care our focus is to 'Strengthen to grow', scaling the business to respond to a market driven by an ageing population, increasing disposable incomes and, of course, a keen eye for sustainable products. Our Life Sciences strategy is to 'Expand to grow', enhancing our existing market-leading products and looking to acquire adjacent businesses and technologies, to deliver improved health and food security. Performance Technologies will 'Refine to grow', focusing its existing product portfolio on fast growth markets and developing a broader geographic footprint.

Governance to underpin our Purpose and sustainability Commitment

The Croda culture and our Purpose are all about doing the right thing. This is built on a foundation of strong, transparent governance, delivered to the highest standards. Through its programme of individual and group visits and meetings, the Board met with a number of our key stakeholders during the year, including shareholders, customers and colleagues, in line with good corporate governance see p54.

Our 2019 safety performance was particularly pleasing, with a continued improvement in process safety indicators and delivery of our personal injury target one year early. This is testament to the relentless focus we have on the safety of our colleagues, their vigilance and care for each other. We are also making progress in diversity across the business; gender balance is included in our new sustainability targets and, with over one third of our Board already female, we are cascading our commitment to other management and employee levels.

The Board continues to develop and, at the 2020 AGM, we will say farewell and thank you to Alan Ferguson, who retires after nine years of consistently wise and constructive contribution. In his place we have welcomed John Ramsay, who joins us with an impressive depth of experience in international finance and the life sciences market. Following the AGM, John will take on the role of Chair of the Audit Committee and Helena Ganczakowski will become Senior Independent Director.

Evolving the team

Our people, as always, have delivered outstanding work and commitment this year. When I meet these colleagues, I am always impressed by their insight and 'can do' attitude. I am proud to work alongside them and want to share my and the Board's thanks for all that they do. 2019 was a challenging year for markets and we took action to keep our cost base lean, to ensure that Croda stays in a position of strength and can keep responding to changing markets through our relentless innovation. These savings will support performance if markets remain subdued and allow us to invest in new opportunities, including in Asian growth markets, Personal Care and Life Sciences.

Case study:

Advancing immunoregulating vaccine technology

Our acquisition of Biosector took us into the high value and fast growing vaccine adjuvant market for the first time. A leading specialist in this field, our adjuvant technologies are advancing the efficacy and impact of a pipeline of vaccines targeting diseases in both well known vaccines, such as conjugate pneumococcal vaccines, and new developments in difficult areas, like AIDS, malaria, hepatitis B and tuberculosis. Our adjuvant pipeline supports vaccines in diseases highlighted by the World Health Organisation (WHO) as key to achievement of SDG 3: Good Health and Wellbeing.

Vaccine adjuvants have developed rapidly in recent years to become an even more critical part of vaccines, as ever more complex active ingredients are developed. Our adjuvants feature innovative immunoregulating properties, moving the industry forward and enabling more complex and effective vaccines. This is an exciting area of future growth for us in a new adjacency for our Health Care business.



Dividend

We have a prudent capital allocation policy, supported by strong cash generation and low debt. This allows us to invest in projects to deliver growth, with over £100m spent in capital expenditure in 2019, as well as pay a regular and increasing ordinary dividend, covered at least two times by adjusted earnings. The Board has recommended an increase in the full year declared ordinary dividend of 3.4% to 90 pence per share (2018: 87p).

Future

The resilience of our strategy and business model has stood the test of time, tough markets and a changing world. As we look forward, this foundation, a wealth of innovative ideas which can improve lives for us all, and our focus on Purpose give us confidence.

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Chair