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Anita Frew
Chair

Delivering returns to shareholders

Overview
I am pleased to report another year of strong progress for Croda. We achieved consistent sales growth in our Core Business, at industry-leading margins, generating capital returns to shareholders.

We delivered growth in sales and adjusted profit in constant currency terms in all three of our Core Business sectors. We improved free cash generation as we came to the end of a significant programme of capital investment. We achieved greater innovation and increased the number of customers we serve.

Over the last three years, Croda has achieved a top quartile total shareholder return (TSR) versus comparator UK FTSE350 stocks. We also ranked first in our industry comparator group of 19 global chemical peers for both of the last two year period and 2018. Management Today, in the longest running annual survey of corporate reputation in the UK, placed Croda third overall in Britain’s Most Admired Companies.

Our people are crucial to this success. My Board colleagues and I had the opportunity to meet many of them in 2018 through our programme of site visits, presentations and informal lunches. I would like to express the Board’s thanks for their hard work, commitment, innovation and agility.

Sustained sales and profit growth
In 2018, constant currency sales for the Core Business rose by 3.8%. With stronger margins, Croda’s adjusted profit before tax reached a new record of £337.5m (2017: £320.3m), up 6.2% in constant currency. Adjusted basic earnings per share were 8.8% higher in constant currency. On a statutory basis, Group sales rose to £1,386.8m (2017: £1,373.1m) and profit before tax to £317.8m (2017: £314.1m).

Personal Care is our largest sector; Croda’s heritage business, where we are the recognised global leader in ingredient innovation. In 2018 it delivered a robust performance, continuing the growth seen in 2017 and retaining industry-leading levels of profitability. Life Sciences successfully replaced sales lost in the planned exit from a major contract, growing across its existing businesses and creating exciting opportunities for future growth. Performance Technologies continued its transition to a higher value, technology-focused business.

Delivering our strategy – the Croda Difference
As a Board, we reviewed our three year plan, which forms the basis for our short to medium term decisions. We have a clear strategy. Firstly, we are ‘Growing the Core’ – delivering top line growth with strong profitability and good free cash generation from our Core Business. Alongside this, we are ‘Stretching the Growth’ – investing in product innovation, creating new technologies and making selective acquisitions to drive superior shareholder returns for the future. In 2018 we invested £37m in R&D, supplemented by £450m in product innovation through our Open Innovation programme, over £100m in new capacity across our 30 manufacturing sites and over £80m in acquiring technology-led companies.

During 2018, the Board undertook a ten year forward assessment of our markets, technologies and opportunities. This included two areas fundamental to our success – purpose and culture, and creating a sustainable business model. Whilst the Board sets the ‘tone from the top’, our culture is vital in aligning our people behind a common purpose and way of working. In Croda, many decisions are delegated across all levels in the organisation and so it is important to create and protect a culture where the broader implications of decisions are considered and where we ‘do the right thing’ for all our stakeholders. In addition, in 2019 we will be rolling out our new purpose – ‘Smart Science to Improve Lives’, harnessing science, our people and entrepreneurial spirit to provide innovative solutions that benefit our customers and meaningfully impact the wider world through those United Nations Sustainable Development Goals (SDGs) to which Croda can best contribute.

Since publishing its first Sustainability Report for 2007, Croda has sought to be a leader in sustainability. This has reflected our heritage of producing sustainable ingredients from natural resources. The world has now begun to embrace sustainability on a broader basis, recognising the finite resources of, and ongoing environmental damage to, our planet. In 2018, we have been working to assure Croda’s commitment to delivering positive climate and societal impact alongside enduring commercial success. Using the SDGs as a framework, we have mapped the strategic actions which create the Croda Difference to sustainable outcomes and performance measures. We will develop this further in 2019 to ensure that Croda continues to deliver financial success and makes a positive contribution to our world.

Governance in action
As a Board, we set out to deliver the highest standards of corporate governance, transparency and integrity. Alongside supporting and empowering our people, we have continued to ensure that we understand and consider the views of all our key stakeholders, including shareholders, customers, suppliers and the communities in which we operate. We have continued to prioritise a safe operating and working environment, engaging with management through our safety leadership programme. We have developed our Diversity and Inclusion Programme, achieving our objective of 33% female representation at Board level, whilst agreeing actions to improve diversity across the organisation.

The Board has continued to evolve to meet changing demands – harnessing a wider range of skills, including international and digital technology experience. We welcomed Roberto Cirillo and Jacqui Ferguson to the Board. At the forthcoming AGM, we will say goodbye to Steve Williams, who has served Croda for nine years and who leaves with our sincerest thanks for his outstanding contribution and wise counsel.

Case study: Diversity and inclusion
In 2018 we achieved our objective of women making up at least a third of the Board. However, we need to replicate this across the Business. As part of our Diversity and Inclusion Programme, we are focusing on ensuring that all employees have, and are able to take, opportunities to progress and develop their careers, in particular women, who continue to be under-represented in senior positions across the chemical industry.

We recognise that improving this situation in our business is a primary objective of our Diversity and Inclusion Steering Committee. There are a number of ongoing and newly created opportunities that have been developed to facilitate opportunities for women and under-represented groups, such as balanced short-lists for recruitment. We are also encouraging flexible working and more opportunity for time to care for families.

As a company, we understand our role in inspiring and empowering a new generation of young women to proactively seek out careers in science, technology, engineering and mathematics (STEM) industries. Part of ensuring that our business can grow sustainably and inclusively means engaging with local communities and schools. Our STEM programme has been active for 10 years with many STEM ambassadors around the world building an impressive number of hours participating at schools in and around our operations.

In 2018 STEM activities made up 43.2% of our recorded employee volunteering time, demonstrating how our employees are committed to inspiring and encouraging school children in chemistry and science.

Outlook
In 2018, Croda continued to deliver sustained sales and profit growth. Looking ahead, whilst global market conditions remain challenging, we continue to invest for the future and are confident that our strategy of Growing the Core and Stretching the Growth will deliver further progress in 2019.

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Dividend
We have a clear capital allocation policy, with profits reinvested to drive growth, a regular ordinary dividend for shareholders, selective technology acquisitions and fund the periodic return of excess capital to shareholders. Given our performance in 2018, the Board has recommended an increase in the full year ordinary dividend of 7.4% to 87 pence per share (2017: 81p). In addition, with leverage at the lower end of the Board’s target range supported by improving cash generation, the Board is recommending a special dividend of 115 pence per share, reflecting the excess capital generated since the last special dividend in 2016.

Strategy Report