

Performance Technologies



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Sales

£456.4m

2017: £456.9m

Adjusted operating profit

£85.2m

2017: £75.4m

Return on sales

18.7%

2017: 16.5%

Case study: Looking to the future



Consumers will want to keep their next generation of ultra-lightweight and thin mobile devices looking pristine. To achieve this we have launched our first 100% bio-based, self-healing ingredient, Priamine™ 1075. Offering self-healing effects, even at room temperature, it is designed for adhesives and engineering plastic parts for 5G smart phones, also providing protection against moisture and extreme temperatures.

2018 was another year of good progress for Performance Technologies in its transition to a higher value business focused on the premium Smart Materials and Energy Technologies markets. Sales grew by 1.4% with higher sales of specialities largely offset by exiting lower margin business. Adjusted operating profit growth was 15.0% in constant currency, the third consecutive year of double digit percentage profit growth. This change in focus was reflected by a significant decline in volume, 8% lower, offset by an improvement in price/mix of 9%. The proportion of sales from New and Protected Products remained low but the innovation pipeline is improving.

At reported currency, sales were flat at £456.4m (2017: £456.9m), whilst adjusted operating profit increased by 13.0% to £85.2m (2017: £75.4m). The stronger product mix was reflected in return on sales up 220 basis points to 18.7% (2017: 16.5%), in line with our medium term target for the sector of 20% and benchmarking favourably with other speciality chemical peers.

As part of Growing the Core, Performance Technologies continued to drive 'value over volume'. Profitability has continued to improve in the strategic growth businesses of Smart Materials and Energy Technologies. Technology change will make these markets increasingly attractive for Croda, supported by customers increasingly looking to improve their sustainability profile using Croda ingredients.

Energy Technologies achieved good growth and margin. The lubricant additive business continued to grow in its established automotive and marine markets, with emerging opportunities in renewable energy. Its range of flow assurance additives for oil pipelines included the launch of FlowSolve™ 140, a wax control additive that helps customers mitigate flow problems in a number of crude oils.

The Smart Materials business made good progress in growing sales of innovative products, whilst shedding low margin products in coatings and polymer applications. The business was impacted by some weakening in end markets towards the end of 2018. The integration of IonPhasE, acquired in December 2017, progressed well, with sales growth, a first product into North America for permanent anti-static protection and a promising innovation pipeline. In Home Care & Water, reliance on low margin business into oil and gas production has significantly reduced, replaced by more innovative home care applications, such as the Coltide™ Radiance range for enhanced fibre protection.

In Stretching the Growth, Smart Materials is reinforcing its global leadership in polymer additives by doubling capacity in the UK. Successful innovation in 2018 included Incroslip™ SL exceeding £1 million of sales for the first time and self-healing adhesives for the mobile phone market. The sector is broadening its customer base beyond its traditional European heartland, into North America and Asia, with an innovation centre in Texas and a new laboratory in Singapore. The sector will also benefit from the new range of ECO bio-surfactants when the plant commissions.

Performance Technologies is focused on improving knowledge intensity, strengthening sales, marketing and technical resources in newer regions, and reducing capital deployed in asset intensity by transforming into a technology-based business with an ever improving product mix. Investment continues in improved testing capability, to generate better application data and support new novel niches. The progressive improvement in product mix will make the business more resilient and continue to improve profitability.