Croda International Plc
Results for the year ended 31 December 2022
Call transcript

Key:
Steve Foots – Group Chief Executive
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Steve Foots, Group Chief Executive
A warm welcome to our Full Year Results presentation. It’s great to see lots of you in the room and many online as well too.

As usual I’m here with Jez, our final appearance on the public stage together after an eight-year partnership. So, it’s official now, Hugh Grant is retiring.

His successor, a lot of people think he looks like Hugh Grant – his successor, Louisa Burdett, is here today, and I hope you get a chance to say hello and see her afterwards. She is looking forward to introducing herself over the coming months after formally taking over in three weeks. I’m very much looking forward to working Louisa, she’ll be great for Croda.

Okay then. Usual agenda then this morning with some overview comments from me before Jez on the numbers and then back to get you excited about the direction of travel for Croda in terms of our strategy. We will then of course be very happy to take your questions.

Okay then, so onto the results. It has been another milestone year for the Group with huge amounts of progress across all areas of the business. Strong growth in both core sectors and most geographies.

After adding £150m of profit in 2021, we have delivered another set of record results in 2022. We’ve added a further £50m of profit and that’s despite divesting our Industrials business halfway through the year and much lower sales of lipid systems post the pandemic. So quite a remarkable achievement that demonstrates strong organic growth in the business.

It also shows our ability to navigate a challenging macro environment too, whilst successfully managing significant input cost inflation and supply chain disruption.

A major highlight this year has been the further portfolio evolution in the Group. We’ve exited cyclical industrial markets to increase our focus on faster growth niches in both Consumer Care and Life Sciences, bringing our business closer than ever with exciting, emerging megatrends that we see around the business.

And we’ve continued as you’d expect us to do to invest in innovation, bringing new products to market whilst building our pipeline for continued growth in the years to come.

This progress is driven by our operating model, the bedrock of our business. And it’s reinforced by a relentless focus on commercialising people’s knowledge, that’s what we do, alongside disciplined investment and strong execution.

For the first time in Croda’s history, sales increased above £2bn and profits exceeded £500m. Quite an achievement that too.
And I have been really pleased with our ability to manage significant raw material and cost inflation, we haven’t seen that for about 15 years in the Group. A sign of a strong business when you can do this and still move profits forward strongly. Price/mix was a massive 24% reflecting the need to recover these costs.

And we’ve announced an 8% increase on the full year dividend, continuing our unbroken track record of dividend growth of more than 30 years.

So turning to the sectors then, I’m very pleased with the strong progress that we have made in our core business. Consumer Care is becoming ever more resilient, achieving record sales and profits last year.

The renaissance in Beauty Care continues thanks to strong demand for sustainable ingredients. Solar care was especially strong, reflecting high demand for mineral sunscreens, whilst sales of ECO bio-based surfactants saw a threefold increase.

F&F is bringing great balance to the portfolio. Whilst our industry had to manage big destocking in the second half, they posted their best half year for two years growing more than 10% in constant currency. Very strong growth there in emerging markets supported by sales synergies building too.

We continue to see a structural shift in customer demand towards sustainable ingredients. We are responding to this with a shift to bio-based and biotechnology across our portfolio. You’ll hear a lot more of that over the next year or two.

As expected, in Consumer Care, the second half was impacted by customer destocking following strong demand in 2021 particularly in North America. It also reflects selective demarking that we have chosen to do of lower margin products due to some capacity constraints. This is a classic destocking cycle playing out in the industry, so important to look at Consumer Care’s performance for the year as a whole.

Life Sciences had another great year, building on an exceptional 2021 where we benefited from the strong demand for COVID-19 vaccines. Whilst Lipid Systems sales reduced for COVID vaccines, all other areas grew double-digit. Crop Protection was the standout performer as we continue to benefit from a growing demand for sustainable solutions.

We made excellent progress in Pharma, not least in growing our pipeline of non-COVID delivery systems. We’ve also repositioned the business to increase its focus on fast growth areas and empower further biologics delivery.

As you know we have got six strategic priorities and we’ve made excellent progress delivering against each of them all this year. We’ve continued to focus on strengthening Consumer Care and expanding Life Sciences, focusing on fast growing niche markets.

We are continuing to see fast growth in Asia where we now have over 1,500 employees – more than in North America. Our recent agreement to acquire Solus Biotech is going to further accelerate our progress which I will come on to later.

We are scaling biotechnology with more than 100 biotech-derived products now in our portfolio. And our scouting network is building our pipeline of potential technology acquisitions. Lots of momentum and excellent strategic progress this year.

And we have been just as focused on delivering our non-financial targets too as you can see from this slide, with progress against all of our KPIs.

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We delivered a 20% reduction in our Scope 1 and 2 emissions against our baseline year, with 81% of suppliers now engaged to improve the sustainability of our products. And crucially, we are taking our organisation with us, with three quarters of our employees recommending Croda as a place to work.

We are also giving back to the communities that we work in. It’s all about impact, positive impact. The Croda Foundation has committed £3m to 21 grants across 19 countries impacting nearly 15 million lives and we have just started. So many of these projects utilise the skills and expertise of our people. For example we are helping to enhance the yield of seeds native to the Amazon so that indigenous people can use their land more effectively.

So all in all, a great year and we are well set for the year ahead which I’ll come back to. We continue to do the right things at Croda and we do them very well.

Now let me hand over to Hugh for a more detailed run through of our financial performance, I mean Jez.

**Jez Maiden, Group Finance Director**

Okay, thanks, Steve, and good morning everyone.

As Steve highlighted, through consistent execution, the Group has delivered another record financial performance in 2022.

Reported sales and adjusted profit before tax both increased by 11%, with sales exceeding £2bn and adjusted operating profit exceeding £500m for the first time ever. EBIT return on sales was broadly flat at 24.7%.

Adjusted profit before tax increased by £50m to £496m. The effective tax rate on adjusted profit rose slightly over 2021 to 22.8%. That is still below our medium-term guidance of 24%.

Adjusted EPS was up 9% at 272 pence. We have proposed an 8% increase in the full year dividend to 108 pence.

Free cash flow has started to improve, with some softening in input cost inflation, with a 9% increase in 2022 to £167m.

Turning to the IFRS reconciliation, exceptional items were £38m, primarily an impairment of the goodwill acquired with the standalone Iberchem Flavours business in 2020 which is behind its acquisition plan.

Intangible amortisation was unchanged at £34m and we delivered a profit on divestment of the PTIC business of £356m. So as a result, on an IFRS basis, profit before tax nearly doubled to £780m.

Turning now to the sales bridge. The chemicals sector has seen significant inflation since the start of 2021, with our raw material basket increasing by 23% in 2022, on top of 17% in 2021. Encouragingly, this basket peaked in Q3 and has seen modest declines in Q4 and into the current quarter, although we continue to see inflation in other operating costs, particularly labour and energy.

In response, our powerful operating model has allowed us successfully to recover these inflationary increases. Including the benefit of new innovative products, price mix added 24% year-on-year.
Organic volume in the retained business declined by 6% year-on-year. The impact of divesting the majority of the PTIC business in June 2022 resulted in a 13% decline in sales – that’s the impact on total sales of not owning the divested business in the second half year.

Acquisitions added 1%. We also benefitted from sterling’s weakness, particularly against the US dollar, which increased reported currency sales by 5%.

You can also see, on the right-hand side, what the impact would have been had we not owned the PTIC divested business at all during 2022 – sales would have been £191m lower than we are reporting today, so those are the sales you need to deduct in order to arrive at baseline your 2023 numbers.

This slide looks at the same bridge but for adjusted operating profit. Organic growth in 2022 added £53m to adjusted operating profit, with growth across all 3 sectors. This was an excellent performance, particularly as Steve said, given that lipid sales reduced by US$60m from the peak of 2021’s COVID driven demand.

The PTIC divestment reduced operating profit by £27m, being the benefit we had in the second half of 2021 compared with not owning the business at all in the second half of 2022. There was again a small acquisition profit benefit and currency translation added £19m.

Again, on the right-hand side, you can see what the benefit was in the first half year from owning the PTIC business pre-divestment – operating profit would have been £39m lower than actually reported. So again, this is the profit that you need to adjust for baseline in the 2023 performance.

Looking from a geographic destination perspective, all regions saw good growth in sales and profit, other than North America.

Asia achieved a record year, with strong demand, particularly in Life Sciences, and delivered modest growth in China, despite pandemic lockdowns. Demand in Western Europe remained robust, despite higher prices and energy costs, with strong growth in Crop Protection and in Beauty Care.

Latin America enjoyed good growth, led by demand in the regional Crop Protection market and supported by Consumer Care demand, including the new F&F operation. Eastern Europe saw a negative financial impact from the closure of our Russian business, which overall represented approximately 1% of Group sales in 2021.

In North America, sales were very strong in 2021 and peaked in the first quarter of 2022. Since then, demand has softened in Consumer Care and Pharma, the latter partly reflecting lower COVID-19 demand post-pandemic.

Now we’ll look at global sector performance. Consumer Care delivered a solid performance, with sales up 18% and adjusted operating profit 9% higher. Margin was, however, diluted by lower volume and an adverse business mix.

2021 had been an exceptional year for Life Sciences, so it was pleasing to see continued sales and profit growth. Life Sciences delivered 19% sales growth and 10% higher adjusted operating profit, despite a reduction in COVID-19 vaccine demand as Steve mentioned.

Return on sales reduced to 33.6%, due to Crop Protection being a larger proportion of the sales mix at a slightly lower margin, together with a normalising lipid systems margin.
The new Industrial Specialties sector holds the remaining Industrial business and the supply agreement with the new PTIC owner. Sales declined year-on-year due to the divestment but were strong in underlying terms thanks to robust commodity prices globally. Despite the divestment, operating profit still increased year-on-year and return on sales was in line with our expectations, close to 16%.

Looking at that 18% sales growth for Consumer Care, this sector saw the largest impact from inflation recovery, with price mix 22% higher. By contrast, volume was 12% lower, which was driven by two primary components.

Firstly, we had seen strong customer demand back in 2021 to meet the post-pandemic consumer recovery, with customers also buying ahead to mitigate surging inflation and secure supplies in problematic global supply chains. In the second half of 2021 alone, Personal Care sales were 20% up year-on-year.

Then, during the first half of 2022, supply chain issues eased somewhat and it became clear that there were significant excess stocks across both our customers and the retail supply chain. This led to destocking by customers in the second half of 2022, particularly in North America which has significant onward customer export to China where retail sales were impacted by COVID lockdowns. Overall, destocking is estimated to have accounted for 5 percentage points of the 2022 volume drop.

Second factor is we suffered some capacity constraints; earlier in the year, this was due to high demand in areas such as solar and hair care, but, later in the year, we suffered some plant downtime constraining supply from some sites. Both these factors caused is de-market, which we hope to recover as 2023 progresses, this impacted sales by another 5 percentage points.

In addition, we exited our Russia operation, reducing sales by 1 percentage point. Previous acquisitions added 2% to overall sales growth and currency added 6%.

Across the four businesses in Consumer Care, Beauty Care and Fragrances saw the strongest growth, with increasing demand for sustainable ingredients and a recovery in emerging markets benefitting Iberchem after the weakness it saw in 2021.

Asia continues to be a strong growth market in Consumer Care and we are investing more resource there, as well as agreeing the Solus Biotech acquisition in South Korea, that will cement our position in three key skin care technologies – peptides, retinol and ceramides.

Profit in Consumer Care grew overall through a combination of underlying sales growth and currency benefit. However, return on sales declined to 22.8%, this was impacted by operating gearing on lower volume, particularly in the fourth quarter, together with a weaker business mix, as Beauty Care and F&F were the stronger performers, compared with the higher margin Beauty Actives business. Just under one percentage point of the decline represents the reallocation of dyssynergy costs, following the divestment of the PTIC business, which will be recovered as proceeds are reinvested into more growth through acquisition.

Now following an outstanding year for Life Sciences in 2021, with rapid expansion of the Pharma business following the Avanti acquisition and exceptional COVID-driven vaccine demand, it was great to see further progress in 2022.

Sales grew by 19% with performance strengthening in the second half of the year. Price mix grew by 6%, while volume was 8% higher, giving total underlying growth of 14%. There were no acquisitions during the period and currency added 5%.

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2022’s strong performance was achieved despite the anticipated 40% decline in sales of lipid systems due to lower demand from our principal COVID-19 vaccine customers. The balance of the Pharma business, together with Crop Protection and Seed Enhancement all grew sales in double digit percentage terms. Crop Protection was the standout business, benefitting from a strong agricultural commodity prices and a good demand environment.

Within Pharma, the Nucleic Acid Delivery systems business is developing its portfolio from the blockbuster COVID-19 vaccines which drove demand in 2021, to new mRNA and gene therapy vaccines, and therapeutic drugs for the future.

2022 sales in this business were approximately US$170m, a little ahead of expectations at the half year, mainly due to higher COVID-19 vaccine demand in Q4, although still well down on the peak $230m sales in 2021.

More excitingly, sales outside the principal COVID-19 vaccine customers represented almost 40% of 2022’s lipids business and are expected to overtake COVID vaccine demand in 2023, when we still expect to deliver $120m of lipid sales.

Overall 2024 lipid sales should be stable with 2023 and then we will see growth from new applications in mRNA and gene therapy from our growing innovation pipeline thereafter.

Turning to cash flow, EBITDA grew strongly. Working capital increased by £134m, reflecting the impact of inflation on inventory and receivables values, which added £82m to working capital, with an underlying increase of just over £50m in to holding higher stocks and receivables. With raw material prices peaking in Q3, working capital has started to reduce, a trend which is expected to continue in 2023.

Capex was below our guidance of £150m to £160m due to delayed phasing. With proceeds from the PTIC divestment, net debt reduced to £295m, which is a leverage ratio of half a turn of EBITDA.

On that theme this is a reminder of our capital allocation policy, particularly relevant given our low gearing level post the PTIC divestment. This policy remains unchanged from what I’ve shown previously, and the divestment is allowing us to deploy more capital, to support expansion in higher growth, higher returning Consumer Care and Life Science markets.

Firstly, we are investing in organic capital spend, with a rich stream of growth opportunities in new capacity, product innovation and geographic expansion. Our typical capex spend remains around 6% of sales, or £120m per year.

In addition, we are part way through our Pharma investment programme to meet the growth in Proteins, Vaccine Adjuvants and, particularly, Nucleic Acid Delivery. Croda is investing £175m in this programme with an additional £75m being provided by the US and UK governments.

Secondly, we are committed to pay a regular and increasing dividend to shareholders, with 2022’s 8% increase continuing an over 30-year record of unbroken dividend growth.

Thirdly, we are complementing our organic investment with targeted acquisitions in technology adjacencies, in line with our preferred approach to buy and build. Recently, we announced the acquisition of Solus Biotech and continue to look at target technology platforms in Consumer Care and Life Sciences.

And finally, we monitor leverage against our target policy of 1 to 2 times EBITDA, returning surplus capital to shareholders, where that is identified.

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I will now hand you back to Steve to talk about those strategic opportunities. Thank you.

**Steve Foots, Group Chief Executive**

Thanks Jez. Okay then, as I said earlier that portfolio evolution has been a major highlight in 2022. Croda is now more closely aligned with the exciting, emerging megatrends that we see. Our world is all about health & wellbeing, that you know, but it is also about feeding a growing population and living sustainably and that is what drives us. These are the megatrends driving greater demand, for more sustainable ingredients and this move to biologics which is just starting for us and that is transforming medicine today and will transform agriculture over the next decade too.

We are planning ahead, reshaping our portfolio over the last five years with strategic technology acquisitions, enabling Croda to meet the big changes that we are seeing.

Following the successful sale of our Industrial business in the summer, we are now a stronger margin, higher returning, less cyclical and higher knowledge intensive business. It’s about commercialising people’s knowledge in Croda. And we will invest the proceeds from this sale as we normally do on building our knowledge base all around the world and strengthen our market leading propositions.

We go to market via these seven businesses, dynamic businesses, highly focused businesses that you are familiar with, they all have managing directors running them. They are enabling Croda to expand within each of these industry niches which are growing fast - some much faster than others. And what’s even more exciting, is these niches are all getting much bigger. So the growth profile for Croda in the next four or five years is a lot different to the last five years.

This underpins our confidence in being able to deliver more consistent sales growth across Pharma, Crop and in Consumer Care over the next three years.

There is a much greater depth and breadth as well to our portfolio, as you can see on the top right it’s very well balanced now relative to three years ago. All these businesses have strong growth characteristics, they all should grow and this is reinforced by a very well-balanced geographic footprint. We are now strong in all parts of the world.

So as we look to 2023, no surprise, but our six strategic objectives remain unchanged. It is all about delivery, delivering further progress in each of them.

In particular, in Asia we will move quickly to integrate Solus Biotech once under our ownership; we will also launch a Scope 3 emissions index to reinforce our sustainability leadership in Consumer Care and continue to commercialise our exciting Pharma pipeline in Life Sciences that we talked to you about in October.

We will focus on ensuring that our biotech investments deliver higher NPP too, and expand our pipeline of potential acquisitions, and deliver additional benefits to customers through automation as well.

So coming back to the each of the sectors then in turn, shining a light on strengthening Consumer Care. You know the chart there shows how we are growing our business in Asia, it has been a top priority and we have been steadily increasing our investment in the region over the last few years.
The Personal Care market is growing rapidly and as our technical, marketing and sales network has evolved, we’ve generated strong growth in the region as you can see from the chart bottom right.

Within the region, China is growing fastest, no surprise there, and we are very well established there serving the domestic market through imports and local production. We are replicating our US model too, increasing our ability to serve a growing customer base of indie brands. And we’ve committed more capex to build a sustainable surfactant plant in India and scale up a site in Singapore to develop sustainable biopolymers – all about this shift to sustainable ingredients.

Turning to innovation then in Consumer Care now. One of our big bet innovation projects is scaling Biotech to harness its potential alongside our conventional chemical technologies.

Croda is already a leader in biotech-derived beauty actives, again, you’ve heard that from us before and we are bringing more and more products onto the market. These include on the left, Nautil, an anti-ageing active that makes skin look younger by enhancing oxygenation – one for our senior sell side in the room – analysts - I’m not looking at you Mark. And there is also Monar, as well, which treats skin pigmentation disorders associated with menopause. Both are based on technologies we’ve acquired over the last decade.

Biotech’s potential extends beyond Beauty Actives to alternatives to animal keratin for hair care and microbial cleaners rather than chemical ones. So you know biotechnology for Croda is very much carbon reduction with great performance.

As I’ve mentioned, our strategy is to strengthen Consumer Care and our acquisition of Solus Biotech in South Korea announced earlier this month will do just that. It’s very exciting for us it’s a global leader in biotech skin actives it’s been around for 30 years and has got a lot of knowledge in the business.

So Solus brings us a very exciting portfolio of ceramides and phospholipids, as well an emerging capability in biotech-derived retinol as well. Effectively we have bought three businesses, that’s how we look at them, very exciting ones too.

The number of new personal care products containing ceramides, as you can see in the graph, has doubled over the last five years, principally for skin care – you’ll see it as premium skincare, but increasingly for hair care formulations too. Ceramides are essentially the glue that holds our skin cells together to keep our skin barrier intact and healthy. So they have a big role underneath the surface of the skin. Whilst this capability opens up opportunities for us all around the world, the fastest growing ceramide market is Asia, so this gives us a strong foothold in the region.

Phospholipids are very exciting too. They are natural and sustainable, filling a gap in our portfolio which will bring real benefits to our customers as delivery systems for cosmetics.

And under our ownership we will be able to significantly accelerate Solus’ growth through access to our technical and innovation capabilities around the world, particularly in formulation, and by leveraging our global selling network, still the most valuable thing in Croda today. We are targeting five times growth over the next five years.

It is a strategic bullseye as you can see from the wheel. It gives us a bigger portfolio of natural, sustainable active ingredients for our Consumer Care business. Products containing natural ceramides are at the luxury end of the market, you know so it’s premium skincare, Sederma 2.0, so we will increase our exposure there.
Solus also brings a new GMP-certified plant focused on high-growth Asian Pharma markets. Their natural phospholipids are an immediate plug & play into our excipients portfolio, providing important delivery system ingredients for injectable drugs and intravenous nutrition as well.

They are also developing lipids which are complementary to Avanti’s, so there is a real opportunity for us to accelerate Nucleic Acid Delivery growth in the region. So phospholipids are very important for our Pharma business too. It's Sederma 2.0 it will help them deliver that and it's Avanti 2.0 as well, it will help them delivery there.

So importantly the two premium franchises in the Group, Solus will strengthen both of them and transform them to the next level. That is why we are interested in them.

We will also be able to establish a central hub from which to scale our biotech capabilities in Asia now. Their skills and knowledge will enhance our current activities and help us to deliver on our ambitious sustainability targets.

And finally, as our first manufacturing location in Korea, Solus accelerates our fast growth Asia plan, providing a springboard to premium and luxury markets across North Asia and beyond.

So a great deal for Croda and we are all very excited, great for Personal Care and great for Pharma as well.

Just turning to Life Sciences then. The opportunities here are also very significant, across all three businesses, remember it’s Crop, it’s Seed and Pharma.

In Crop Protection here, conventional pesticides are by far the biggest market where sustainable delivery is the critical need. Croda is leading innovation in this area with technology to help our customers reach their new sustainability goals. For example, Syngenta awarded Croda its Reduction in Carbon supplier award, on the left here, Daniele in the picture there as well. Reducing carbon benefits, you know we’re creating value for customers by reducing carbon, as well as giving them great products.

We are also investing in systems for biopesticide as well that use microbials and RNA, it’s starting to come on the market. It is a much smaller market at the moment, but it’s growing much quicker. For example, here is a delivery system for a bio fungicide that is far more specific than chemical equivalents. Again, our ingredients are driving the next generation of biopesticides.

In Seed Enhancement, our range of microplastic-free seed coatings are generating successful results from field trials with all major customers across all major regions. This is creating significant growth opportunities for the Seed Treatment business as well.

Turning finally to Pharma, our drug delivery technologies are generating revenue across all stages of the drug cycle.

So working from left to right on this slide. Excluding COVID-19 vaccines demand, the balance of the Pharma business delivered good global double digit percentage sales growth in 2022. Our delivery systems play a key role in thousands of patented and generic drugs that have already been commercialised, providing a strong foundation. So you know we are growing from a strong foundation.

When we look at the clinical programmes, there are 1800 projects today in the clinical field. This is really exciting and underpins our double digit percentage sales growth target for

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Pharma that we talked to you about in October, with the possibility of break-out growth clearly on top if some of these hit the market with big blockbusters.

The pipeline is fed by our relationships – in the third column, the 5,000 companies and research institutes that we are working with, that feeds the pipeline into the clinical programme.

And then finally at the end, you know we have our own innovation pipeline that then pulls it together of new technologies that haven’t been launched yet.

So overall, when you look at it all, you know it’s really exciting to see the breadth and the depth of the programmes we are involved in that is really exciting. And that will support our £1bn Pharma business ambition by 2030. And again, you know you’ve heard that from us before.

So just to shine a light on some examples for you. On the left in operation today, Herceptin is the world’s leading drug for breast cancer. It uses monoclonal antibodies to stop the cancer cells from growing and dividing, and uses our speciality excipients in its delivery system. So on the market now, you know we are saving lives with our products, you know smart science to save lives.

And also with only one commercialised mRNA application today, for COVID-19 vaccines, it’s not surprising that most nucleic acid drugs are in clinical development or discovery. Interesting ones that are not far from the market are the ones where you use a combination of COVID and flu vaccines and we are in a stage three trial right now, with a number of other flu products behind as well. So you know a combination drug of COVID and flu not far from the market.

How to deliver drugs to the brain is an important question when we look at drug discovery. You know the blood-brain barrier does a great job keeping out unwanted substances but also impedes drug transport to the brain. We are working with an Asian biopharma company which has developed a carrier technology to solve this challenge, opening up the possibility of treating an array of rare diseases.

And in terms of our own innovation, we are working with a leading Danish health institute a research institute to develop two new adjuvant systems there too. These are for novel therapeutic vaccines that have huge potential for treating already-contracted diseases.

So in summary and wrapping things up we’ve had a good start to the year with the Group trading in line with our expectations.

In Consumer Care, customer destocking should end in the first half, supporting continued sales growth this year there. In Life Sciences, good sales growth in Crop and our non-COVID Pharma business should offset lower Covid lipid sales there the year.

So overall, our performance is expected to be second half weighed reflecting the divestment of our industrials businesses in the first half of last year and the phasing of COVID-19 lipid shipments too. And as ever, the power of our operating model and focus on fast-growing niches, will enable Croda to deliver consistent, superior returns.

So there is a lot to excited about we feel like there is a growth machine in Croda which is bigger than it was in the past coming to you and to us. A portfolio that is more aligned to fast growth mega trends. More opportunities that are getting bigger. A transformative Pharma pipeline with increased resilience in Consumer Care. And a strong balance sheet to support continued investment to deliver growth and value to you and our wider shareholders.
So finally, I want to thank Jez very much for the role that he has played with me for eight years. We have been a great partnership and he has done a terrific job for Croda. And he leaves with our best wishes for a long and happy retirement. So thanks for everything, Jez.

[Applause]

Okay, we’ll stop the webcast there if that’s all right and then we’ll take some questions. There are some bacon sandwiches, or sandwiches of some description.

Oh sorry, I beg your pardon, we’re staying with the Q&A, but after the Q&A, when it’s finished if people want to stay around to see Louisa and everybody else, Daniele is here, and Fitz is here as well, you’re very to have a coffee with us and a sandwich afterwards if you haven’t eaten this morning.

Right, let’s start now, come on Gunther, we’ll let you go first again.

**Gunther Zechmann, Bernstein**

Thank you, and thanks, Jez, for your communication to the markets as well and your role at Croda.

Steve, if I can start with a couple, please. The first one, you mentioned softening in raw material costs you’re starting to see, so if there’s a guidance you could provide for the full year, what are your planning assumptions for raw material costs and any guidance around energy and logistics, which you said is still increasing?

Second of all, coming back to Slide 17, minus 5% for customer destocking, how do you calculate that? Another way of putting it, what are the error bars around it and what are the error bars around the guidance that this will end with H1?

And bonus question is why did Croda not increase the dividend 30 years ago? You’ve been with Croda for 30 years.

**Steve Foots, Group Chief Executive**

I joined in 1990, so it was just before I joined. But, no, let's do raw materials, interesting, raw materials softened Quarter 4 from Quarter 3 by 4%. We expect about a similar figure into Quarter 1 from Quarter 4, but we’re not seeing a big slide of raw material prices, and we’re not forecasting this. Still quite a lot of moving parts, and that’s a positive because that means demand is still holding up pretty strongly.

And the proxy for that, 70%, a large portion of our raw materials are veg-related and natural-related, and they’re a function of demand, so you would see that come off if demand drops. So, that's reinforcing in many ways of this strength in demand, you know, and we think this destocking is the main area there. Jez, on the energy costs? Of course, I'll come back to the demarketing in a minute, but just on the...

**Jez Maiden, Group Finance Director**

Yeah, so we will have an increase year on year. Energy costs in '21 were about 2.4% of sales value, last year, they were about 3%, so we're anticipating some energy cost increases, but, of course, they look a lot lower now than they did just 3 or 4 months ago. We have hedging in place, typically on a rolling basis, for about four to six months, so, we won't benefit from all of the recent reduction.

So, I'd expect some increase but, I mean, we're probably talking up to 50 basis points of sales, so we're in a relatively small, sort of, area. I suspect we're probably a little bit more focused on labour inflation because that tends to be a bit more of a drag. I think logistics is settling
down now, but, obviously, labour's quite big, cost of living increases tend to go through a little bit in arrears, so I think, in '23, you'll see a bit more of that increase in labour costs coming through, but nothing that we haven't, sort of, planned for.

And, as Steve said, in a slowly declining raw material environment, that, hopefully, allows us to just protect the margin around the, you know, delayed inflation, you know, the later inflation that comes through those opex lines.

**Steve Foots, Group Chief Executive**

Just on the Slide 17 demarketing, you know, we were out in the summer and I think we messaged very clearly we expected a correction in volume in the second half of the year, which we've seen.

If we reflect on that, though, it's quite mixed. You know, Asia's delivered more positively than we thought. We thought the volumes would come down a bit more in Asia. We thought they would a little bit more in Europe as well, but the big slide has been in North America, and that surprised us on the downside. But, on balance, actually, so this demarketing is not rife everywhere right round the world. Yes, there is some volume moderation in Asia and Europe, but it's relatively small from what we expected in the middle of the year.

So, the centre of attention for us is North America where you have seen this jump, and you can argue that you can look at that in different ways and say, well, they were first out of the pandemic, you know, America always spends its way out of problems, so there's been a huge rebuilding of demand. And, actually, when you reflect on it, probably quite a bit of that's gone into stock in the first part of this year. So, what you see is a big correction, and that's what we're seeing at the moment.

In terms of defining that and how we measure that is we look at patented products. So, what you can see with all of our product customer combinations is, in destocking, is they don't cancel orders, they just move them back, and they move them back for a month or two months or even three months. So, we can map quite well in a geography, a certain part of the geography, how that's moving. Sometimes it moves forward, sometimes it moves out. So, if we see a restocking, you find that orders that were placed on the books for two months' time will come forward and vice versa.

So, that 5% comes from a very close look, and we tend to look at patented products because, you know, they're Croda's products, they've got, you know, 100% patents. We're not competing with business or having two sources in with customers, so you find that's it's a pure look at our demand, you can get a good idea, and because we've got thousands of products and customers, you can get a reasonable assessment of that. So, that's our assessment of the 5% on demarketing.

And your bonus question was 30 years ago, wasn't it? Stuart, what was the share price 30 years ago? Gareth will know. Probably about £2, I think, I would imagine, or £1.50 even, but there you go.

So, yeah, we think half of that is destocking, and the industry's calling it destocking, and if it's calling it destocking because it comes to an end sometime. You know, we're not seeing this demand reduction or this attrition or this trading down, we're not hearing that for a lot of our customers, we're just see quite a lot of stocking points, and what you're seeing is this unravelling. And it's very hard to see when it comes back, but my history would say, you know, we've gone through six cycles now, and it always takes a little bit longer to come back.

When it comes back, it comes back quite quickly because there's always an exaggeration at the end of the cycle, whether you're going into the cycle or you're coming out of a cycle.
either have not enough stock or you have too much stock. So, our assessment is that's why we're thinking it's more a, sort of, first half rather than a Quarter 1 impact. Jez, anything else?

**Jez Maiden, Group Finance Director**

I think that's fine. I mean, we do cross-check for broader product range. So, we map, obviously, what the sales pattern for every product is and so forth, and do some data analytics against that, and then we compare that with the sort of, customer relationship management system that tells us, you know, because you always follow up with customers.

I mean, the difference, I think, in our ingredients, which are relatively small quantities, is, you know, the customers' reaction to having too much stock is literally to cancel two, three months' worth of orders, you know. It's not like filling up a tank where you just sell a bit less to top up the tank because that's moving more slowly. In our case, you literally take two, three months out, and we've seen that, you know, most particularly in North America. So, it's fairly easy to track and so forth.

Obviously, on the demarketing side, it's relatively easy for us to do because that's a positive decision by us because we're either very capacity constrained, as we were in the first half, or because we've had to take some plants offline, as we saw in the second half, to catch up really, and to catch up with maintenance. So, we can map those.

You don't get all of that business back straightaway, but you work to recover that business, you know, with the customer. So, I think we'll get a steady recovery over the second half demarketed product, but it won't all come back in one go because, clearly, these are non-patented products, and the customer has gone elsewhere because we couldn't supply them.

**Steve Foots, Group Chief Executive**

Charlie?

**Charlie Webb, Morgan Stanley**

Yeah, thank you. Maybe just following up on the Consumer Care piece, as we look at ‘23, and you're talking about destocking, which is hard to necessarily see when it ends, but you expect it to end at some point, how do your expectations look for Consumer Care in terms of growth, price mix versus, kind of, lagging or lapping positive price for inflation? And likewise, also, margins, obviously a very diverging margin performance first half, second half in ‘22, how do you expect that to, kind of, expand or, kind of, go into ‘23? So, that'll be the first question.

And just secondly, on Life Sciences, when you think about your Biolipids business, ex Pfizer, and the developments you're seeing both in '22 into '23 and you look at your guidance, '24 kind of flat, but the COVID piece isn't moving all that much, is there a chance you're being too conservative there? I mean, what are you seeing in terms of the orders, in terms of the demand for sampling for new products, etc?

**Steve Foots, Group Chief Executive**

Okay, let me start then, and I'll get Jez to pick up margins and back to me on lipids. Yeah, I mean, as we look through the year now, you know, a bit like the demarketing bit, we look at data points. More of our data points are positive than the negative, I mean, they're not all positive but they're more positive than negative.

In terms of real data that we can see, China started very well for Croda, led by Actives, you know, the premium skin market is coming back in China, duty free, travel, borders opening up, you know, people spending on expensive skin creams. So, you know, we expect Actives to have a good start in China. And that should pull some volume to North America as well because people forgot but probably about 20% or 30% of the ingredients that we ship to
America are formulated in America, then they go into China. So, you know, China should drive a bit of recovery in North America too, so we've seen that.

We've had a good start geographically in most regions. America's still soft, not getting any worse, and signs of the order books are improving through March, April in North America, so we would expect that, and that, sort of, chimes with the China comment I just made.

I think, if you look at the businesses, Life Sciences has had a very good start across the board. The F&F business is continuing to strengthen, you know, that's a good balance in the Consumer portfolio. That's growing in emerging markets. Actives has had a good start.

So, actually, you look at it in the round and it's really just the Beauty Care business for that to come back fully, which is, when you work the maths out, is, what, 20% of the Group or 18%. So, actually, most of the businesses have started reasonably well, regions are fine. Our one area that we want to see recovery is North America, so that's where the area of focus is for the Group. Jez, on margins?

Jez Maiden, Group Finance Director

Yeah, so, if you look at the impact on margin in the second half year, really three factors – you've got reduced volume, so you've got this operating gearing effect of significant lower volume, you know, falling down nearly 20% in Consumer in H2. You've got a business mix effect because of Beauty Care and F&F being the stronger parts and Actives being relatively quiet. And then you've got the dyssynergy effect, you know, which is really about regional and central costs that used to get allocated to the PTIC business. It's a sort of, fixed cost, and until we deploy the capital in new businesses, and they pick up their share of the cost, they've got to go somewhere, so they go to Consumer into Life Sciences basically. So, those are the three effects.

If you look at 2023 and look at how that could recover, we'd expect the volume effect to unwind progressive, obviously, as the destocking comes to an end. We've already got through our capacity constraints and plants offline, so, therefore, you know, that parts back up, so now it's all about market demand and the end of destocking. So, I think you'll get a steady unwind of gearing.

On mix, as Steve says, Actives have started, more encouraging Actives is usually the first to slow and then the first to recover, and we're certainly seeing some early signs of that, so that should help the mix.

The dyssynergy effect, which is, you know, a bit less than one percentage point of margin across two businesses will stay with us until we're reinvested that capital, you know, hopefully, later this year into '24.

So, I think we can get, margin-wise, you know, we see Consumer Care as a business that should be averaging about 25% return on sales. You know, we're a bit below 23% in 2022, and, therefore, I think we can probably get, sort of, halfway back in '23, but it'll probably be '24 before you see the full recovery given, you know, we know the first half is going to be a bit slower.

Steve Foots, Group Chief Executive

And back to lipids, you know, in good shape, as you said. The $120m for '23 is less than half of that now becomes the principal partner, and if you think where we were 2 years ago, the majority of that was the principal partner. You can't see that through the numbers. So, we've derisked the principal partner revenue, and that's very firm, I would say, the nuances of the contract there are very committed, but that second half, the principal partner is in the second half, all of those sales, and that's just because it's a bit like what we talked about, this
destocking. Every government was running around trying to purchase things. We're in what I call a normal supplier/customer relationship where there's stock on the ground, but it just so happens there's quite a bit of stock in the system. So, it's second half weighted because that demand's still there, but it's firm. Those orders are very committed.

So, the principal contract is fine, so then, as you say, the question is the majority of the business now is loads of moving parts. And people forget, we bought Avanti, it was $40m of lipids. We paid the headline figure for the core business, we had the earnout for the principal partner, so the core business is growing well, and we shouldn't forget that. So, that's got a lot of growth in it, and that's got core lipid growth plus quite a lot of the discovery into clinical programmes and growing.

I think, you know, $120m is fine, we're fine with that, we don't want to change that. A lot will depend, as you know, there's moving parts – there's a few in clinical three. We really don't know when these hit the market, if they do, eventually, hit the market. If they do, you know, if we thought they were significant then we'd, you know, update the market on a regular basis. But, you know, I think the interesting there is the COVID flu vaccine, which looks like it's not far away. Now, again, we're in a lot of different pharma projects there, and we don't know which one's going to hit the market first.

So, the $120m, we think is still a very good guide for next year, but the principal partner amount in there is in the second half of '23.

**Charlie Webb, Morgan Stanley**

Thank you.

**Steve Foots, Group Chief Executive**

Sebastian?

**Sebastian Bray, Berenberg**

Thank you. Two questions, please. The first is on the Avanti lipid COVID-19 vaccine project. From memory, when the contract was announced in 2020 late-ish time, there was a 3-year period after which it could come up for partial renegotiation towards the end of '23. What is up for renegotiation there? Baseline volumes or price?

And the second question is also on polar lipids, or lipids more broadly, but it has a different tack. It's quite an ambitious sales target for Solus Biotech to increase fivefold the number of sales over the next five years. Is it using Avanti capacity? Do you just take the technology and run it on the fermentation tanks in the US and Europe, because my thinking is, come '24/'25, until there is a real pull through of flu vaccine demand, some of that capacity, which will be newly built, will probably be a bit underutilised. Is the idea just to put personal care lipids in there to fill it? Thank you.

**Steve Foots, Group Chief Executive**

So, in relation to Solus, yeah? Yeah. Well, we'll do Solus first and I'll come back to lipids. I mean, you know, Solus, it's a capital light business, you know, we buy knowledge, so we think, you know, as we grow this business significantly, it doesn't need a huge capital injection, so don't worry about that, and they have biotech facilities in partnerships locally, so it doesn't need to be scaled up in Europe and North America for us. But one customer order and one contract can halve that multiple, you know. There's some significant business to be had there, and I'd like to think are very well-known in the consumer industry.

We have a number of our strategic partners encouraging us to buy things like this because they're single-sourced or they're just desperate to globalise these products. And it's a bit like that plant stem cell business we bought several years ago where one or two of our leading
multinational partners could not formulate with them globally because they didn't have the strength that they could support them globally with the rollout. In this case, you know, Croda's number one in the world in sustainable actives, so we know what we're doing.

So this is a great opportunity for us. It doesn't need a huge amount of capacity. But the other synergies, or the black box synergies, will be it opens up a biotech technology brain for Croda in the fastest growth area of the world for Croda, which is North Asia.

We've talked to Dr Challenor, Dr Layden, Professor Layden now, our issue is not launching the products, we've got a lot of products to launch in Croda, this was operational scale. So, we see this as a vehicle for operational scaleup as well, and it's got a potential for a pharma as well, as you said, so we're fine with that. We've got lots of opportunities. We've got 7,000 customers in Consumer, and we haven't even talked about phospholipids yet because everybody thinks it's a ceramide business. It is, phospholipids, we wanted into phospholipids for about five years, and this is a great vehicle for Croda to get into phospholipids because phospholipids have three different application areas in Pharma and one big one in Personal Care. So, phospholipids cuts across everywhere, so, don't worry about capacity.

Your other question was connected with Avanti lipids, yeah, you're right. I mean, it's interesting because the relationship with our partner always changes. I mean, in the outset, it was just about supplying it, now it's about partnering and lots of R&D programmes because, as you can imagine, mRNA now is in several applications, not just with Pfizer but with Biotech separately as well. So, I think our next generation contract will reflect that.

So, there'll be discussions around the existing business, but there'll be discussions more about the partnership potential of the future as well. And if we've got anything to say on that, we'll let you know. Jez?

**Jez Maiden, Group Finance Director**

I think, in terms of, you know, the key thing to remember that, you know, we did $190m roughly with the principal customers in 2021, we did just around $100m in '22. We're estimating $40m to $50m in '23. So, yeah, you could say directly on that application, there is some uncertainty because there's only a framework ingredient for years 4 and 5 but, at that point, you're at $40m to $50m.

We think there is residual COVID demand for vaccines, so we think that, you know, you could well carry on at that sort of level going forward. But, clearly, you know, we have to put this in context and say that's been the great surprise really of buying Avanti for the medium-term R&D development and actually getting this huge, you know, opportunity, which has clearly also helped pay for Avanti much sooner than we expected. But, as Steve said, you know, we're managing that down to a level where it becomes a bit more noise, I guess, in the overall performance and the opportunities are the new areas.

So, yes, I think there's opportunities to carry on at that sort of level going forward, on COVID specifically, but it isn't that meaningful in terms of then how the business performs going forward.

On your point around capacity, I think, yes, we're very clear that, on the Pharma expansion on nucleic acids, it is unusual for us in that we are putting the capacity in before the market needs or at the time that the market needs, hopefully around '24, '25, the cusp there, whereas we would traditionally probably see how the market developed, then get capacity in, and maybe end up constraining the market growth. And we're very clear that, you know, nucleic acids and lipids are so exciting, we don't want to be in that position.
There's a real first mover advantage for having been the first company to commercialise the lipid delivery system, and we believe that we need to be there offering these projects that Steve’s talked about, the opportunity.

So, yeah, there could be a little bit of managing that capacity through ’25 and projects come onstream, but we’re absolutely convinced the right thing to do has been to invest this £175m to be ready for that market, real explosion in ’25, ’26.

**Sebastian Bray, Berenberg**
That's helpful. Thank you. And just to clarify, can you use Avanti capacity to make Solus Biotech products, or is that you don't know yet at this stage?

**Steve Foots, Group Chief Executive**
We probably can, but we're looking at it the other way as well, of course, we can use Solus' site to make Avanti products. That's a better fit and more exciting for us because can we make mRNA lipids ultimately, potentially, or, you know, really, I think, high quality pharma ingredients in North Asia for North Asia, you know, you look at the China market and the North Asian market generally. So, you know, this has got a lot of opportunities for us.

**Matthew Yates, Bank of America**
Thank you. Maybe just to follow up on the Solus thing, you're describing it as Sederma 2.0, does any of the growth cannibalise the existing peptides business or is getting into ceramides a totally incremental new field for you?

**Steve Foots, Group Chief Executive**
It's the latter, it's completely incremental, and also what it does as well is Sederma is a great vehicle for indies in the world, you know. Entrepreneurial start-ups always start with peptides, but they also start with ceramides as well into their formulation. You need them both in the same formulation. One, it reduces aging, the other one gives you rapid moisturisation. Going to be a brilliant product out there when they're all in. But, you know, they're mutually exclusive in terms of competition and different vehicles for the surface of the skin. So, yeah.

**Matthew Yates, Bank of America**
And maybe this one's for Jez, on the Iberchem impairment, the £35m or so, just to be clear on this, you're saying this is principally on the flavours part rather than the fragrance part if I understood correctly? Yeah? When you did the deal, there was a question over whether flavours were core and to be kept. Can you, sort of, update us, your thinking on that?

And just from a, sort of, accounting nuance, why shorten the forecasting period from ten years to five, which obviously aggravates any short term changes?

**Steve Foots, Group Chief Executive**
I'll take the first bit and then, Jez. Yeah, so, I mean, they're a bit unlucky. I mean, we went down to have a look at them. I mean, the issue they've got is they've had a 1 in a 15 year event, which 34% increase in raw materials. It's all on the flavours. The fragrance business is ticking along very well.

So, what you’ve seen is a strong revenue growth, as we expected, in line with the management plan, but the margins are squeezed, so it's hit profitability in the short term, and that was the question. So, it's a technical consideration in the maths that say, well, how quickly can you get back to your management plan? And then we ended up taking the decision that we did, which was just to give it – because we can't be sure that the raw materials are going rebound very quickly, but, you know, when we look at the business, it's a very good business, and there's
no structural change in the business, it's just had one of those 1 in a 15 year event, and impairment calculation – the audit partner in the room as well, you know. That's what happens.

You know, you have to take a view of that, and I think you'll see that a lot in the industry this year for people who have bought recently acquired businesses that, for some reason, you got caught with a margin squeeze, but really you're best to take the impairment and, you know, that can reverse in the future.

But that business, just to your second point about, you know, the future of it, it's a business that we like to really run for a while to be better understand it, and it's got great growth trajectory.

You'll see a margin improvement performance, you know. It started well, it's got a nice geographical spread of its assets, and it doesn't really bother us. It's growing, it's got good growth, doesn't need much capital. And we'd like to grow the EBITDA for two or three years and then take another view because, you know, I think, it's a prize asset for people. But, you know, we want to improve the profitability after we come out of this big shock on the raw materials. Jez, I think?

Jez Maiden, Group Finance Director
Yeah, so absolutely completely flavours, completely that standalone business unit. The fragrance headroom on current value of goodwill is over £100m, so, you know, we're very happy with where fragrance is performing relative to the acquisition plan, and, of course, that's our strategic business within that, sort of, 75% of that business. So, very much a standalone business and just taking a view around that recovery.

In terms of the shorter period, that's basically accounting guidance. Basically, you should generally be using five years and then a terminal rate, you know. On new fast-growth businesses, we've tended to use ten in the past, but we've come into line with normal practice there, so it's five years. And, as you allude to, you know, you do remove that outperformance that you would probably normally have in your model for years six to ten. So, that also provides some impact. But it's the right thing to do to reduce the goodwill carrying value there, and, you know, we'll see how that business develops, as Steve said.

Steve Foots, Group Chief Executive
Okay, Matthew? Chetan, you had your hand up before.

Chetan Udeshi, JP Morgan
So, two questions. First, maybe for Jez, you know, in terms of the split of profit between first half and second half, usually it's 53/47. How are you expecting that seasonality or split this year?

The second question was, just going back to the discussion around destocking and capacity constraints in the Consumer business, I was just looking at maybe my calculation might not be entirely correct, but the volumes in the Consumer business are down probably 6%, 8% versus 2019. I mean, clearly, the market has grown in that period, so I'm just trying to understand why should there be any capacity constraints for Croda? And also, how do we tie that destocking comment given that, since 2019, the volumes for Croda hasn't grown in that Consumer business? So, I think those are the two questions.

Steve Foots, Group Chief Executive
Jez, do you want to start on the seasonality and split?
Jez Maiden, Group Finance Director
Yeah, so, I think, we'll be more second half weighted. I mean, the key thing's, obviously, when you the comparisons, the two biggies are the £39m of profit that we made in the first half of last year on the PTIC divestment, so we won't have that £39m. And then, secondly, across the year as a whole, we'll be $50m lower on lipids, and you can put that, sort of, in a relevant, sort of, healthcare margin and, sort of, get the effect of those. So, I guess that's the year-on-year comparison.

In terms of the seasonality, next year will be a bit more second half. The principal customer on the COVID lipid side has said that they don't want to take the volume until the second half year. You know, they've talked publicly about, you know, inventory levels and so forth, but it is firm demand, so we know it goes in the second half of '23, but they don't need any in the first half of the year for the COVID vaccine.

And then, in terms of the Consumer Care balance, yeah, it'll be a little bit more second half weighted. So, I think we'll be, you know, something around 50/50, maybe slightly more of that in the second half year than the normal seasonality of 53/47, as you say.

So, some year-on-year comparisons, and then some seasonality pushing that into the second half year, basically, for COVID demand in Life Sciences and for the rate of Consumer Care recovery from destocking.

Steve Foots, Group Chief Executive
And do you want to kick off the second one, the capacity and volume.

Jez Maiden, Group Finance Director
Yeah, it's a good question. I need to go back and look at the comparative volumes, but, I mean, I think the key thing that was, you know, as well as the destocking effect, we're in the position on the Consumer Care where we had been running flat out really for 18 months, from the beginning of 2021.

I mentioned on the slides that we had, you know, a 20% increase in Personal Care sales in the second half of 2021, I mean, way above our cycle, you know, where we, sort of, expect about mid-single-digit growth across the cycle as a whole for Consumer Care. And it's very hard for the chemical industry to react and do 20% more, you know, and, therefore, you are using inventory to some extent, and you end up with a, you know, constrained inventory for the products that are selling really well, and you've always got more inventory of the products that are not selling so well. So, you start to basically not have the capacity to meet the customers' service needs.

The other thing is you need some downtime on the plants to do the essential maintenance and so forth, and we just got to a situation on the second half where we had to have two or three plants offline for a period of time to do that maintenance work. So, you get a bit of an artificial constraint to the volume, which we do think comes back, although it doesn't come back straightaway because you need to win that business back. And, of course, the business you shed is the lower margin business where the customer can go to somebody else to get it. You don't shed the products that they're entirely reliant on you for.

So, I think you've got that artificial break in the second half year, even though, you know, there's a big impact from destocking, there's a demarketing effect as well in there. So, we've finished that work now, and so we're back fully onstream within that.

Chetan Udeshi, JP Morgan
Thanks.
Steve Foots, Group Chief Executive
Yeah, I'll just add to that. I mean, the weakest part of your business is where that disappears is the bigger volume as well, naturally, for us as well, because most of our protected intellectual property is in, you know, the small volume, high value. So, we would say that as well.

David? This will be a good question from our Head of IR!

David Bishop, Director, Investor Relations
It's on behalf of Isha Sharma at Stifel, and Isha asks – Europe seems to be holding up well. Are you considering a possibility it might follow North America in destocking?

And her second question is – what are your thoughts on Givaudan's acquisition of some of Amyris' ingredients and, more generally, on synthetic biology?

Steve Foots, Group Chief Executive
Yes, well we're not seeing it, it's a question that we ask ourselves quite regularly. This is the Europe one, about Europe, we had a good start. And again with Croda there's a lot of moving parts in Europe and each of the countries so we've got a good set of data points there so we're not expecting that, we don't see that, we see it's just located in America and we would expect that to raise.

I mean yes, on Givaudan you're going to see more announcements like this from Croda as well in partnering with some organisations where they've got biotechnology capability, you know we've all got probably great ideas and great products. But sometimes what we don't have is that capability to scale up quickly in the business as well.

So Amyris is one partner, you know, which we're very aware of and there's plenty of others as well. But their products that they've partnered with are not potentially competing products for us but they're in a lot of those probably similar formulations as well, there it's on squalene more than anything else. So yes but you'll see a lot more for the industry because the industry has to move, you know, it is moving to biotechnology. And it has to move pretty quickly so, you know, moving to partnership agreements is one way of quickly commercialising your IP.

So in our strategy we have a buy, build and rent model effectively. And we need a combination of all of those so we'll be scaling up biotechnology in Sederma in Korea, the UK, North America but we'll also be partnering as well. And our issues we've got in our pipeline, we have a lot of biotechnology products ready to go so it's the handbrake is on commercialised and through scale up, operational scale up.

David Bishop, Director, Investor Relations
That's prompted a few questions. Come back to you Nicola.

Nicola Tang, BNP Paribas Exane
Thanks, hello. Actually, it did prompt some questions Steve because there was a follow up on that. I was wondering if you could talk about the broader sort of M&A pipeline and the areas that you're looking at or whether we should expect much to happen in 2023?

And related to that around capital allocation. Could you remind us Jez in terms of with that £175m of investment into pharma, how much between '21 and '24 how much is left? Just to kind of confirm capex above the usual base £120m for this year. Thank you.

Steve Foots, Group Chief Executive
Yes, I mean very active as you'd expect us to be on M&A but the priority, and you've heard this probably a thousand times from us, we're interested in really great technology, intellectual
property, clever people, provincial businesses really in many ways. But they have the ability or we have the ability to globalise these around the world.

So Avanti’s a good example, you know, Denmark the vaccine business. Now Korea, they’ve all got brilliant intellectual property, we diligence that really robustly, brutally in many ways. Because we have to be sure that that technology can be globalised. And then we use the solid network to really globalise this so that’s the type of businesses we’re looking at.

Daniele is here, he’s got a scout, a chief scout we call him, we’ve got Dave Shannon, we’ve got a chief scout for him as well. So their job is to hunt the technologies, you know, we have a list of technologies which is probably the most valuable thing in the Group. And so the list of technologies probably not many will have on their lists so we know what we’re looking for. And it’s interesting, you know, the list as you get focussed in there we put our best business development people on that so that’s the type of businesses we’re looking at.

But it’s going to be more in the same line as the Avanti’s, the Solus, Biotech, it’s really brilliant technology that can be commercialised around the world.

**Jez Maiden, Group Finance Director**
In terms of the pharma capital programme of £175m from ’21 through ’24 we are probably about halfway through the net spend so we spent about £90m so far. We’re probably a bit less than that because more of the government funding comes in the latter stages of the programme. So we’re a bit less than halfway through, sort of overall I guess in terms of progress.

We’re a bit behind as I said in terms of where we expect it. I think I was guiding you at around 150 at the half year, we came out some 140. So I think there will be some catch up in ’23. So I think for ’23 I’d be thinking 160, 170, that’s sort of £120m of the base programme, that’s very consistent because it’s spread across sort of 20 plants around the world.

But on the Pharma programme I think we’ll probably be spending more of the order of £50m. So I think for this year a bit of catch up from the - or catch up on the ’22 on the spend, then complete the programme in ’24 so yes.

**Sam Perry, Credit Suisse**
Thanks. Could I ask about the dynamics and expectations for crop care into ’23 because if I look at the LaAm growth of 19% this year, and I think ’21 was also a very strong year. And compare that with the expectations across the crop technologies for sort of mid to high single digit, what do you expect in terms of demand disruption in ’23? And maybe pricing and ability to hold on to that as well? Thank you.

**Steve Foots, Group Chief Executive**
Yes, our view is it’s had a great 18 months, you can see that in the numbers. And it should continue like that. I mean it’s got very favourable market around it so we think the Crop team probably the first half will continue very similar to what we’ve seen in the last 12 months. And then probably moderate in the second half to its normal growth level, it’s normally around the mid-single digit sales growth environment. If you look at it for the last sort of 10, 15 years in Croda you get the volatility quarter to quarter. But actually annually it normally trades around that mid-single digit.

So the model is a strong first half and a more normalised second half. You know, raw material prices are staying pretty high, so there will be some discussions with customers around pricing inevitably. But it all depends, that could increase, it depends on what raw materials do but we’re well versed in managing those relationships.
Sam Perry, Credit Suisse
Because things like fertiliser prices coming off impact - or that’s sort of an alternative way to increase yield impact your ability to hold price or not so much?

Steve Foots, Group Chief Executive
There are some macro drivers but it’s not really fertiliser, but a lot of ours is innovation and pipeline. You know, we’re into some of the sort of next generation of stuff. So the most important thing for the crop customers is how do they get more bang for their buck. So can they get products out that deliver x% yield savings, 5%, 10%, so there’s always an encouragement to launch new things.

So you find with Croda we’re always in some of those, we’re number one innovation partner in the industry now. And people forget that, they always see us as Personal Care and Pharma, we’re number one in Crop. So we have early sight and we have a lot of strategic partnerships there.

So I think with Croda the work that we did three or four years ago is starting to bear fruit because it takes three or four years to get these to market. So there is some macro, don’t get me wrong, I wouldn’t peg it on fertilisers, there’a bit of everything really. But the growing areas that are really important to us are Europe, Latin America and North America, and all three for 18 months have been strong. And we expect those to continue certainly in the first half so yes it’s a really good business for Croda.

David Bishop, Director, Investor Relations
Charles I am going to come back to you but seeing that you’re next.

Mubasher Chaudhry, Citigroup
There’s a couple of questions on Iberchem if you can update us in terms of how the synergies are going, how the margin development is going especially in 2022 and then what you feel like is the right number for 2023?

And then a couple of comments on Specialty Excipients that had quite a strong year in ’21. How’s that developed in ’22 just a feel for the top line please?

Steve Foots, Group Chief Executive
Well F&F are really pleased; we’ve talked about the impairment question. But on the flavour side it’s growing very well through, don’t forget it’s emerging market exposed, sorry fragrance yes 83% of our F&F business is exposed to emerging markets. So fragrances has done very well throughout the year, and actually it’s got strong through the year which is interesting. And that’s part of the reason we bought the business because it’s a nice balance to the chemical industry portfolio in Consumer Care as well.

Synergies are developing well, I don’t think we’ll, you might push us on a number, we’re not going to give you a number. But it’s moving in the right direction, we’re capturing good synergies now. And I think the big thing that’s coming through in the synergies is our relationships with some of the multinationals we call them or the regional dynamo’s where we didn’t expect to pick up some business. But we’re picking up business particularly where Iberchem assets are strong, North Africa, Latin America, South East Asia and where they match the locations of our strategic partners we’re starting to win some business there.

On the flavour side, I mean it’s going well. The issue is they’ve had a big raw material increase. So it’s recovering that margin through this year but both of them have got very good sales growth characteristics in the business. So we expect ’23 to be good for both sides of that business.
Jez do you want to add anything?

Jez Maiden, Group Finance Director
No it’s fine. Do you want me to talk about specialty excipients yes. So yes so I think it’s interesting because if we look back I think it was 2019 we did the capital markets event on the specialty excipients platform which was obviously the sort of home grown platform within what’s now the Pharma business. And sort of unveiled just how strong that was and we’ve consistently seen growth of 10 to 30% across that delivery platform.

And that continues, you know, we’re much more focussed now or we talk much more about Vaccine Adjuvants which of course we acquired in 2018, in December ’18. And then of course the lipids platform of Nucleic Acid Delivery acquired in 2020. Which as Steve said on his chart are less mature and therefore more development growth opportunity. But the biggest areas of sales is still in those protein specialty excipients. And the growth is still very much there in terms of injectable delivery systems for drugs. So continuing to expect yes 10 to 30% growth across that platform.

And that’s why you struggle to see that big drop in lipids post COVID-19 because the protein and excipient platform is growing so well and the vaccine adjuvant platform is so growing well. So yes we’re just building each of these platforms on in turn and getting more and more excited as we do that.

Steve Foots, Group Chief Executive
Okay Charles, been waiting patiently over here.

Charles Eden, UBS
Thank you. Yes, just one follow up from me. Just in the Life Science business obviously you’ve got some headwind from a revenue perspective from the lipids business. But clearly crop seems to be growing well still, the health care ex lipids growing well. Are they growing well enough to offset the lipids business, i.e. will you grow organic sales in Life Sciences in ’23 as you see it today? And then maybe you could just talk a little bit about the margin expectation because I appreciate that mix is a negative on the margin. But could you help us versus that 33.6% margin in ’22, how the margin might look for ’23? Thank you.

Steve Foots, Group Chief Executive
Jez you want to cover that.

Jez Maiden, Group Finance Director
Absolutely. No a really, really a good question there Charles. So at the sales level we would expect the growth in crop protection, seed enhancement and non-COVID lipid pharma to offset the $50m decline. Because if you put the numbers in the model, you know, we have about, we’re reported £680m of Life Science sales so there’s about £550 of the non-COVID part of that. And that market should be growing between mid, high single digit really. So I think if you put that in, we should be generating enough growth at the sales level to offset the lipid decline. So I think overall as we look at the year, we think Life Science is broadly flat.

But as you say at the margin level you probably won’t quite get there in terms of profit because healthcare platforms tend to be a higher margin, a bit higher margin than the crop care platforms. As Steve said it’s still very much crop that’s growing there. So I think that we’ll do well to keep the profit flat year on year in Life Sciences, but we certainly should keep the numbers whole in terms of life Science sales if that makes sense.

And Daniele is smiling gently so I think I’m alright.
Steve Foots, Group Chief Executive

Martin at the front.

Martin Evans, HSBC

Thanks. Just back on Nicola’s question really on M&A. I mean the technology space generally has fallen; the rate valuations have come down. And yet in your particular niche is it the case that price is still non-negotiable? I mean Solus was I think roughly ten times sales whatever and it’s all to do with whether the seller wants to join the Croda Group, and not so much on negotiating the price down? Or do you see valuations potentially this year as the cost of money goes up falling?

Steve Foots, Group Chief Executive

It’s mixed, I mean just for everybody’s benefit I mean when you look at really relatively small EBITDA businesses which have got brilliant growth and they’re into sort of second generation or third generation proven growth that needs to be scaled. And of course we look at the multiple like you’d expect us to, and we look at that probably more than most. But the most important valuation to Croda is in our hands, you know, with this technology around the Croda world what does year three and year five and year seven look like. And then we have to value these businesses on the strength of that.

The other way of looking at his if we didn’t buy this business and we wanted to buy in three years’ time it would be a much bigger figure and we probably wouldn’t want to buy it. So we try to buy them at their early stages. It might look like they’re big multiples but for this type of business, you know, it’s de-risked on the strength of the strategic bullseye where it ticks so many boxes, there’s growth streams everywhere. But I think it will be different, you know, normally we would expect quite a lot of our businesses to be mid-teens in terms of multiples and things like that.

And valuations are coming down in certain areas but they’re not in others as well so I think it’s a mixed picture. But, you know, there will be opportunities in the future to get things at relatively modest multiples but if there’s something that looks really interesting for us at big multiples. And we think for us and for you and for everybody else we create enormous shareholder value then we’ll do that. You know you look at Avanti, it’s a bit like the Avanti model, we paid $175m for that, there’s some of that value in our books now. And if we wanted to sell that, which we’re not by the way, it’s a lot more than that and that’s the type of thing that we can do very well.

So we’re more interested in rapidly growing brilliant technologies than we are at doing big deals. I wouldn’t say for the sake of it but big deals that are out there, that’s not really where we see the direction of travel because we see a lot of good opportunities in that technology space.

But I think my point in summary to that is the valuation is dependent upon the individual business and it always will be. And we look at all of the right metrics to look at that. But, you know, the lens is always year three, five and beyond as to how we turbo charge that growth.

Martin Evans, HSBC

Can I also echo our best wishes to Jez for a long and happy retirement. I think Jez we first met in ’98 so that’s – what is that 25 years. All talking together. Yes exactly a lot of water’s passed under the bridge but no have a great retirement Jez.

Steve Foots, Group Chief Executive

I think on that that’s a great way to finish so thanks again Jez for everything you’ve done. And thanks, good questions. We’ll stop the webcast now, happy with that David, and then if people want to hang around, we’re upstairs for a sandwich.
END

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