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Transcript

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Steve Foots:

Good morning everyone. Many thanks for joining us here at the London Stock Exchange today, and a warm welcome to everyone online as well. I'm here with Stephen Oxley, our CFO, who has been onboard since the start of April. Stephen's been a great addition to the team and hit the ground running, not least in helping us to push forward our plan to grow earnings and improve returns. So more on that shortly. So in terms of the agenda then, normal outline from us today and set out in the slide up there. Stephen and I will run through our performance and the progress we've made with our five-point plan before stopping to take your questions.

So, okay then starting with some of the key highlights from the half. Overall, our financial performance was very much in line with our expectations at the start of the year. The second quarter moderated slightly versus the first, but group sales increased by 7% for the first half. Sales grew in all three businesses and in all regions a strong improvement in volumes across the board. More than offset a modest reduction in price mix leading to a healthy increase in both adjusted operating profit and profit before tax. And whilst we're mindful of the challenging environment, our guidance for the full year remains unchanged. And despite delivering good sales growth in the first half year, we remain a long way off from where we want the business to be executing. The five point plan we introduced in February has been our major focus. Our actions are helping us navigate this current environment, simplifying and modernising our business and speeding up our efforts to enhance margins. We have accelerated our plans in particular identifying a further £60 million of cost savings, taking the total to £100 million of annualised savings by the end of 2027.

There is much more to do, but our strategic and our operational focus is creating a stable, stronger platform from which to improve earnings and returns going forward. So turning to some of the trends that we're seeing across our core markets. As you'd expect, the environment continues to be tough. Starting with beauty, which has remained resilient with growth across all markets excluding North America. And as you can see from this chart on the left, political uncertainty in the USA has had a negative impact on consumer confidence. We've seen some evidence of US consumers trading down, particularly in beauty actives, which is more exposed to the premium end of customer products. Beauty sales combining actives and care were up 3% with demand, still strongest in Asia driven by local and regional customers. In Pharma, customer confidence has been adversely impacted by policy decisions in the US with approval processes slowing and more limited public funding impacting some areas. Pharma sales were up 5% and in agriculture improved demand has been supported by lower but stable Crop commodity prices and lower inventories at our big four Crop science customers who've been buying, again, Crop and Seed sales combined were up 13% driven by good demand, especially in Europe.

So overall, whilst we've delivered a good sales performance, we cannot assume that our markets will pick up anytime soon, which is why we're accelerating this five point plan. So I'll come back to talk about some of these actions in a moment, but first let me hand over to Stephen to run through the numbers in more detail. Stephen.

Stephen Oxley:

Thanks Steve. Good morning everybody. It's great to be here for my first results presentation at Croda and to be able to report a solid performance despite challenging market conditions. I'll start with a financial headlines. In constant currency sales were up 7% at £856 million. Adjusted operating profit was up 12% at £147 million and adjusted profit before tax also grew at 12% to 138 million. Reported profit before tax of £85.5 million includes a £7 million exceptional restructuring charge, £18 million for the amortisation of inquired intangibles and a £27 million impairment charge, which includes £22 million as a result of a recent decision to rationalise our warehousing in Europe. Free cashflow was £34 million as a result of higher working capital and net debt was £580 million after payments of the 2024 final dividend. Leverage remains conservative at one and a half times EBITDA and we've declared an interim dividend of 48 pence. A slight increase on the prior year

Turning first to sales where my comparisons are in constant currency, we delivered sales growth across all businesses and all regions volumes were up 11% as we drove strong growth in each of our businesses. Price mix was 4% lower as we selectively reduced prices to regain share at the bottom end of our agriculture and beauty care portfolios. The average cost of raw materials was broadly flat looking at sales by region. Europe led the way with sales up 12% reflecting a strong performance in both Consumer Care and Life Sciences. Asia continued to perform well, increasing 6%. North American sales were up 3% impacted by tougher consumer spending. As you just heard from Steve, and Latin America grew 5%.

Turning to sales performance by quarter. You'll recall first quarter sales growth was particularly strong at 9% and in the second quarter there was a more normalised rate of 6% as the political and economic environment became less predictable. Sales growth in Consumer Care continued to hold up well at 7%. Life Sciences was up 6% after double digit growth in the first quarter due to the crop rebound in Europe, and industrial specialties grew 2% in the second quarter after a good first quarter.

Looking at the performance of each business, Consumers Care sales grew 7%. This comprised an increase in volumes of 9% and a reduction in price mix of 2%. Sales to local and regional customers were up 11% as they continue to outperform the market by business unit. Fragrances and Flavours continues to be the standout performer growing ahead of its underlying markets. At 17% Beauty Care is the largest business within Consumer Care where sales were up 3%. Volumes in Beauty Care were 8% higher, but price mix was 5% lower as we selectively reduced prices to win business in the bottom end of the bottom 20% of our Beauty Care portfolio. Beauty Actives grew 1% as a good performance in Asia was offset by North America where demand for our customers premium products weakened as consumers traded down. Adjusted operating profit of £86 million was up 7% with an operating margin of 17.4% broadly in line with the prior year. While margin did benefit from volume growth and cost initiatives, it was impacted by mix due to the relative outperformance of F&F and Home Care.

In Life sciences sales grew 9% to £261 million. Volumes were up 16% with price mix down 7%. As you can see, growth was driven by our agriculture businesses where Seed enhancement benefited from strong vegetable demand, and there was good demand for crop protection, especially in

Europe. Pharma sales grew 5%. The recovery in Consumer Health continues and in biopharma sales grew in lipids for drug research and excipients for protein-based drugs, but there's no doubt that the US regulatory environment is creating uncertainty which is likely to continue for the foreseeable future. Life Sciences adjusted operating profit was up 30% to £56 million with higher operating margin improving from 18.3 to 21.5%, mainly due to higher volumes.

Finally, sales industrial specialties were up 4% at £103 million with volume growth of 10%, partly offset by price mix of 6%. Direct sales were up 12% while sales through Cargill, which we don't control, were down 16%.

Turning now to operating margin, this chart shows our operating margin increased from 16.6 to 17.2% year on year. You can see here the 11% increase in sales volumes contributed to a 3.8% increase in margin as we regain share. This was partially offset by the impact of price mix, the majority of which was price as well as currency with the strengthening of sterling. As expected, the early benefit from cost savings offset the impact of inflation and the incremental cost of recent investments. We said in February that we'll deliver £25 million of cost savings this year. That will be an equal mix of payroll savings and lower operating costs. We are on track to reach our target and this delivered a benefit in the first half to profits of £10 million.

We have identified opportunities for much greater savings and efficiencies, which I'll come back to later. Looking now at debt, as you can see, there was a working capital outflow of £61 million compared to an inflow in the prior year when we benefited from a large payment from Pfizer, which was our COVID receivable. Given our good sales growth, we would expect some working capital outflow in particular at F&F, which has longer collection terms. Nevertheless, we need to improve our working capital management as inventory levels are higher than expected. Net debt increased to £580 million or one and a half times EBITDA, the middle of our stated range. Capital expenditure was £60 million and our full year guidance for CapEx remains at £135 million. After paying the final dividend, there was a net cash outflow of £61 million.

Turning now to our capital allocation framework. I don't want to make any changes to the framework, but we will apply it with greater rigor. We have four clear priorities. First is organic investment where there's been a period of heightened intensity, including the Pharma Investment Program. We expect CapEx to continue to reduce as a percentage of sales from 2026 onwards, and I intend to bring a strong focus to returns risk and execution to the process of appraising capital investment. In particular, future CapEx decisions will prioritise opportunities for faster cash payback.

Second, we remain committed to growing the dividend. Third is M&A, and after significant activity in recent years, our focus now is on driving greater returns from these investments and across the whole portfolio. We'll continue to look at small technology led bolt-on acquisitions, but any spend here will be modest. In other words, a few million.

Fourth, we will maintain net debt within the range of one to two times EBITDA so we can return surplus cash to shareholders over time. Finally, I want to reiterate our full year guidance. Despite operating in an uncertain political and economic environment, our performance in the first half was in line with our expectations. With our Full Year guidance is unchanged. We continue to expect adjusted profit before tax between £265 and £295 million in constant currency. There was a negative impact from currency translation of £4.5 million in the first half. And based on current exchange rates, we would expect the full year impact to be around £10 million. And with that I'll hand back to Steve.

Steve Foots:

Great, many thanks, Stephen. As I mentioned at the start, we've made good progress with our five point plan to improve earnings and returns. Our actions are enabling us to navigate a more challenging macro environment and they're also strengthening crower for the future, making sure we can grow faster with a simpler, more efficient and effective organisation. I'm going to run through the three points along the top of this slide, the areas that we're focused on to drive growth and Stephen will then pick up on what we're doing to maximise efficiency as well.

So, our first priority then to maximise returns from our portfolio following a period of peak investment. We must get much more out from our recent investments than we do currently. The plan to increase growth is company-wide, but let me highlight three examples on the slide of where we're taking action. Starting on the left, our portfolio of ceramides came to us through the acquisition of Solus in 2023 and offers significant sales growth in margin potential everywhere.

And when you see fast growing brands boasting rapid moisturising moisturisation, or even skin barrier protection, their products are very likely to contain the ceramide. So far, commercialisation has taken longer than we would've liked, but to address this, we've now rapidly exited all distribution agreements and our global sales network is selling ceramides in every location around the world. And we're supporting them by doing things like upgrading the technical data packages for existing ceramides, essential information for new customers and leveraging our R&D and formulation expertise to develop new actives and mechanisms to deliver ceramides to the skin. Our actions are starting to have encouraging results with ceramide sales up 50% in the first half, albeit from a pretty low base. Sales have grown in all regions from the most well-known beauty multinationals to a lot of smaller on trend brands. We've got a great pipeline of new products having recently launched a ceramide for stronger hair, one of the first applications anywhere in the world beyond skincare.

So turning to Pharma, our eyes have been off our heritage business whilst we've been ramping up by bioPharma. So, we're increasing our focus on selling ingredients for consumer health and veterinary applications. Progress that has been accelerated by Thomas Riermeier, who joined us from Evonik in April to lead our Life Sciences business. And under his leadership we've initiated Project Flagship to reinvigorate sales into over-the-counter consumer health products, reprioritising resources and generating new claims data initially for topical and oral delivery applications. This is helping us regain share, delivering 10% sales growth in consumer health and three consecutive

quarters of steady progress. So finally on the right, whilst expansion in emerging markets has been a focus for us for the best part of a decade, like many peers, we have more manufacturing in Europe and North America than we do in Asia. We're continuing to shift our footprint towards fast growth countries, particularly in Asia where Consumer Care sales grew 8% and in half two we're commissioning a new surfactant plant in India where Consumer Care sales grew 30% in the first half of the year.

Our second priority is leveraging our proximity to local and regional customers. You've heard that a lot before from Croda. They're innovating faster and winning market share. We've seen that for some time now and that market data supports that that will continue

Given the pace at which they're growing. There is more we can do, but investing in our footprint to get closer to our customers has been a key part of our strategy for some time, particularly in higher growth markets. So in Beauty, we're seeing the rise of regional giants, companies like Boticario and Quila in Brazil, Arma in Egypt, Kolmar in Korea and Milbon in Japan. We are replicating our successful China model to help these key players in the market grow and in Consumer Care. Our sales to local and regional customers increased 11% in constant currency and they now represent 81% of sales up from 72% in 2019.

We are seeing structural change in our customer base in the industry, and by the way, this trend doesn't mean we're turning our backs on multinational customers, far from it. They continue to drive premium innovation and maintaining our strong relationships is really important, but we do have to respond to increasingly diverse markets and that is what we've been doing.

So, turning to Pharma then Asia is becoming increasingly important for future growth. China alone now accounts for 30% of drugs in development globally and Korea and Japan are also in the top 10. So following efforts spanning many years to register our broad portfolio of Pharma ingredients with the Chinese Pharmacopeia, Croda Pharma sales in China have grown double digit percentage CAGR since 2020. We are implementing further actions to strengthen our presence in all regions that are important for drug development globally. In crop, our strategy continues to prioritise building relationships with smaller tier two and three customers, particularly in Latin America.

In Asia, that is where we're seeing the most opportunity and hunger for innovation. In Crop, we saw sales to local and regional customers increase 11% in constant currency and they now represent 56% of sales compared to 44% in 2019. And finally for me, the third priority to support growth is stepping up our innovation. This is both to address the gap created in the aftermath of the pandemic when customers were focused on marketing existing brands rather than developing new products and to respond to the continued diversification of the customer base.

In Beauty, we focus more R&D resource on customer led projects, individual specific projects, which drive sales at good margins and help us create new ingredients. PEG-free variants of our existing product range are an example of bespoke ingredients created in this way. This approach is particularly effective

in more mature markets where collaborative innovation is on the increase. Renewed customer demand and increasing innovation are reflected in increased sample activity for samples of our innovative ingredients, up 12% CAGR in beauty actives and 8% in Beauty Care.

Over the last two years, good leading indicators of activity insight generated through closer relationships helped us identify a gap in the market for non-animal version of keratin that can be used for deep conditioning of hair, particularly in professional salons. This resulted in US launching Kerabio, a vegan friendly bond builder for hair and a great example of us commercialising biotech to enhance our portfolio differentiation. And in Pharma with Thomas in-role, we're increasing focus on our core ingredients and broadening our priority market segments into areas such as generics. So through the acquisition of Avanti in 2020, we acquired a portfolio of more than 2000 lipids and a brand that is recognised by research customers globally. We have since expanded the portfolio through both R&D and partnerships, launching 130 more products so far this year and partnering with Certest to provide our customers access to their proprietary ionisable lipid range. So overall lipids for drug research have grown double digit percentage CAGR over the last five years.

And another one of our core capabilities is specialty excipients. And this has been enhanced by the commissioning of a novel super refining process at one of our UK sites. This is proprietary to Croda extending our leading position and one of our new super refining regions is in aid to cell culture media, which has been very fast. We've seen a very fast uptake for a new product. So good progress across those three priority areas to drive sales growth and our foot is firmly on the pedal to do much more. Stephen, over to you to run through the efficiency program.

Stephen Oxley:

Thanks Steve. So the transformation program is designed to deliver the full value of the business by driving better execution, greater cost efficiency, and improved customer experience. The program is broad based with individual work streams reviewed and approved by the executive and the board. There's a detailed action plan underlying each work stream with clear milestones that we track regularly and report progress on. We have an appropriately resourced project management team led by a newly appointed transformation director with clear accountability for delivery, and we aim to transform the business in the following ways. First, by delivering commercial excellence, we are reducing the complexity of our product portfolio and customer base as well as optimising pricing. Together with improved account management and customer service, this will support sales growth and improved margin. Second, there's a significant opportunity to drive operational and supply chain excellence. We're fast tracking an improvement program to each of our 11 shared manufacturing sites as well as optimising manufacturing, warehousing, and our logistics footprint. Third, we're improving direct and indirect procurement, almost all of which is currently decentralised at a local or regional level. Fourth, we are reducing management layers and making headcount savings to reduce employee costs which represent around a third of our cost base. We're also globalising; globalising our enabling functions such as IT finance and HR, which have largely been established bottom up with individual countries and regions deciding the resources that they need.

Our initial efficiency program was scoped to deliver £25 million of savings this year with a further £15 in 2026, amounting to £40 million in total over two years. As a result of the initiatives that I've just outlined, we are more than doubling our cost savings target to deliver annualised savings of a £100 million by the end of 2027, representing around 8% of our 2024 cost base. And this excludes benefits from driving commercial excellence. The contribution we expect from each work stream is set out on the slide here. And as you can see, the biggest benefits are expected to come from optimising operations, and procurement. The phasing of these savings builds over the three years though some of this will of course be offset by inflation. The estimated cash cost of the program will be in the region of £80 million, which we will take as an exceptional item charged over the three years.

There will likely be additional non-cash charges including further impairments as we review our production and distribution assets, our cost base and working capital. For example, as I mentioned earlier, we've already recorded an impairment charge of £22 million in the first half following a decision to rationalise our European warehousing. Overall, this program will improve profitability, offset inflation, and help mitigate any risks to sales growth from the continued macroeconomic uncertainty.

Next, I want to turn to the actions that we're taking to optimise capacity across our production and distribution network. Our 11 shared manufacturing sites each comprise four or five core processes and account for approximately 70% of volumes, and 60% of group sales. They manufacture ingredients for Beauty Care, Crop Protection and Industrial Specialties as well as Consumer Health. First half volumes were up 8% year on year in Beauty Care, 18% in Crop Protection and 10% in Industrial Specialties, all of which is a great outcome.

As a result, volumes at these shared sites improved to 92% of the pre-COVID 2019 baseline with stable gross margins overall. We expect to be back to 100% of the baseline towards the end of 2026. Now this information is helpful to understand drivers of profitability in the business, but we actually have more than 40 manufacturing sites across Croda and most of our costs are not associated with these 11 shared sites. So our operational excellence and footprint workstreams are focused on optimising production and distribution across Croda as a whole with the aim of maximising profitability and ensuring capacity for growth. So in short, our Croda wide transformation plan is designed to deliver growth and more than double our ambition on cost savings in order to substantially improve both operating margin and returns on capital. And with that, Steve, I'm back to you.

Steve Foots:

To me, to you. Okay, thanks Stephen. So in summary then we've delivered good growth in the first half and our full year guidance is unchanged, despite this uncertain economic environment. We still remain a long way off from where we want Croda to be and we're taking action to drive sales growth and profit margins. And at the heart of this business is a strong portfolio and we're working hard to maximise its strength and drive value, leveraging our proximity to local and regional customers as they continue to prosper and we're expanding innovation, getting it back to historical levels by doing what we do best. The demand environment will improve, but we're not waiting for that. We are driving further efficiencies to navigate the challenges, but it's also simplifying and modernising our approach in all areas. Margins are benefiting

from volume growth and optimising our capacity is a critical priority. And ultimately all of our actions are targeting, improving returns, getting more from the investments that we've made and focusing harder on working capital and being more disciplined to enhance return in invested capital too. There is much more to do, but our strategic and our operational focus is creating a stable, stronger platform for further progress. Let me stop there and hand over to take your questions.

David Bishop: Good morning everybody. For the Q&A, we'll prioritise covering analysts in the room. When Steve invites you to ask a question, please wait for the mic and then give your name and covering institution. We'll also take Q&A over the webcast. Please type your question into the webcast player and I'll ask the questions on your behalf. Steve,

Steve Foots: Charles, first up.

Charles Eden: Hi, good morning, Charles Eden from UBS. Two questions for me please. Firstly on the free cashflow as you highlighted, inventory has looked a little high in the first half, or at the end of the first half. Do you have an inventory days ambition or working capital days ambition in mind? And if that's not something you want to share at this point, could you talk about the levers you intend to pull to drive efficiency here? Is it more efficient systems to monitor inventory levels and drive timely receivable collection? Is it ensuring tighter accountability from site and business leads? Any sort of colour on that would be helpful. And then my second question is on the commercial excellence opportunity, is it fair to assume this is primarily focused on top line rather than cost reduction? Could you perhaps talk a little bit about the specific areas you're targeting for this opportunity and qualitatively what benefits that can bring to Croda?

Steve Foots: Great, thanks Charles. Stephen, why don't you go for the first question and I'll come back on the commercial excellence? Yeah,

Stephen Oxley: Yeah. So Charles, let me deal with the working capital. It's a great question and a great series of answers. It's all of the above. So what's happened in the first half inventory has built, and if you go through that, there's lots of very rational examples as to why that's the case, pre-tariff build, pre stock ahead of sale, so it all looks very sensible. But if I stand back, the overall inventory levels to me for me are too high. So we've got to get that down. The focus, the moment is on transformation and growth and cost, but very quickly I want to turn to working capital and I see opportunity everywhere. If you think about some of those transformation programs, so operational excellence as we look at warehousing and logistics, that will enable us to squeeze inventory down the same on rationalising the product list and skew list. So there's opportunity everywhere. We'll get that right. We'll put the customer first, but I think there's a great opportunity across all of the areas of working capital, including inventory, optimising receivables, and looking at our payment terms

Steve Foots: And on the commercial excellence, yeah, we've been doing a lot of work with deep dive update, our five year strategy and we're looking at all parts of the business. I mean one thing that's coming out is we supply thousands of products to thousands of customers. There's an opportunity to simplify around

the edges. So we have a profitable tail as you expect because we're a distribution company that's vertically integrated to manufacture with big R&D in the middle, but there's an opportunity in the tail to be much more profitable as well. So I think the area of focus there is customer and product profitability, really looking at a level of detail we haven't before and simplifying the number of skews at the complex area of the business. And that's really around the edges, that's not changing the model, it's just good practice, lowering the cost to serve with some of these smaller customers.

Can we get them more online in our systems? And also taking a different view with minimum order charges and also things like pricing as well to maximise the benefit. Some of these customers have been there for quite some time. So I think the heart of the Commercial Excellence Program is that, but sitting on top of that is also scaling up capabilities, as we are seeing local and regional customers expand everywhere, it's making sure our skill sets in every country, not probably the obvious ones, we've got that there. But in these emerging countries, middle East, Africa, parts of Latin America where you're getting entrepreneurial businesses starting up, making sure that our skill sets are right there as well. So we think this is structural with local and regional, so building capability to serve those better as well. So it's all around that. You'll hear more around that moving forward, particularly as we go into next year. But it's about simplification and adding value. Adding value commercially.

Charles Eden: Super. Thank you.

Steve Foots: Sebastian last in.

Sebastian Bray: Thank you. Good morning everybody. Sebastian Bray from Berenberg Bank. Can I start with one non-group utilisation rates please? I think the group has previously indicated that it was in the mid-eighties prior to the pandemic striking. And if I take the indexed figures for the shared sites, so on the slides it basically implies it's somewhere in the high seventies as at the end of Q2, but this excludes the 30% or so of facilities outside for top 11 sites. And the temptation is from an analyst perspective just to say, okay, the whole group behaves as if it's in line with the big sites and ignore the remaining 30%. It sounds as if there's potentially a bit of a problem with the remainder. How is the utilisation of those other sites performing currently?

Steve Foots: Well, I'll start and then let's Stephen add. I mean the reason we talk about utilisation rates is really a consequence of the pandemic and the main leverage effect is the 11 shared service sites. And you can see that we're making progress. We're not far away from 2019 levels. The others we don't talk about too much because they're all different. There are small sites linked to businesses. A lot of those small sites are in F&F, everywhere around the world. And you can see the performance of revenue growth is good, profit growth even better. So we're fine with the leverage in Iberchem and that covers a lot of sites. And then you look at the other smaller sites like in Pharmaceuticals like Avanti and also Denmark, and we want more business through those. We are happy with the Avanti, but we want more business in Denmark and I think that's fair.

And then the actives business in Sederma is really the other major one. And you never hear us talk about leverage in Sederma. Sederma is growing well. So I don't think necessarily we have a problem anywhere else. What you might be looking at is don't forget we've made some strategic capital decisions, putting a plant in India, putting a plant in China for fragrances, India for surfactants for beauty care, and also Lamar, which is the new Pharma plant as well. And all of those are obviously will be optimum from the start because you're trying to grow, you're growing into your market. So there will be an element of building returns in there as you grow, but we're putting that in because we expect to get the growth. But Stephen, do you want any additional colour

Stephen Oxley: Look, I'm not worried about utilisation. I see that as an opportunity. I mean one of the workstreams is very deliberately to look not only at the contribution from the assets site by site, but how we optimise across the whole network. We've not done that before, so there aren't concerns about capacity. It's great to see the volume coming through. That's what we want in the business. Once we've got the volume which we're getting, we can then optimise the asset base.

Sebastian Bray: That's helpful. Thank you. If I could ask one on Pharma as well, if we are on the topic, how well underwritten are the new facility volumes at Lamar? And I was interested when I saw the presentation on the Pharma results, but the consumer part of the portfolio seems to have grown better than the part that is often thought to grow more quickly, which is high purity excipients and maybe even potentially the lipids part of it. It's difficult to tell. Why was that in H1?

Steve Foots: Yeah, I mean if you talked around Lamar, I mean the plan for Lamar don't forget, most of, more than half the investment was with the US government. So that was a gift to us and we are very pleased with that because we need that for the future. So I would say that immediate plans are to transfer production from Avanti. Avanti is busy, so we want Avanti to be more of a research base, and we want production in Avanti to transfer in a systematic way through to Lamar. That's one thing. Second thing, Consumer Care looks quite interesting for Lamar as well in terms of new technologies coming through, which we're deliberately vague about, but some really good opportunities coming into the heart of what I'd call our premium space in Beauty. And that's something that will help us drive returns there as well as we go forward.

So Lamar is primarily for lipids going forward and Avanti start up to first scale and second scale production, but it's also going to be for really what I'd call luxury consumer ingredients as well. And that's the key driver I think I would add as well. You'll hear a lot more from Thomas, and Thomas has come in to refresh the strategy and there's, you heard this project flagship initiative, which is a lot around the core business, consumer health, veterinary providing more data, new product launches, renew, refresh activity there. That's the core of that Pharma pipeline and platform. And you'll hear more about that as well. So I think more of a balanced approach around Pharma going forward. But did you have a follow up on that or not? No.

Sebastian Bray: High purity excipient business is doing?

Steve Foots: High purity excipient business is doing Well, I mean what you find with that, that's been encoded for nearly 20 years, probably more than 20 years, and don't forget, that's as a product of movement of drugs to biological actives. So these are injectables, liquid injectables and Croda's, world leaders in high purity excipients. We are introducing, let's just say new revolutionary technology in this space to how you purify materials. So we're launching a number of products like Atlox that you've heard about. Intercell media, but also into Bioprocessing as well, which are new markets for Croda. And we expect good growth to follow over the course of the near term and medium term. Okay. David, question from you.

David Bishop: Thank you Steve. I've got three questions on Pharma coming through on the webcast. The first comes from Gareth Hayward who says is technology leadership in Pharma moving to Asia? Secondly, one of Katie Richard's questions, the covering analyst at Barclays is do you have the local production that you need in Asia and how is this aligned to your Lamar investment in the us? And then thirdly, David Kneale at Coloma Wealth on consumer health. He says, was the issue just a lull and market demand post COVID or have you lost market share or missed out on opportunities?

Steve Foots: Yeah, well let's take them. For Gareth's point, I mean whilst you see the uncertainty around the US policy decisions around Pharma, you're seeing a very creative and proactive Chinese government putting a lot of money into Pharmaceuticals right now. And I think in the stats that we just talked about, 30% of new products launched globally from China, 30%. So the world of Pharma is moving very quickly in innovation to China. We've got tiny market shares and it's a bit like where we started with Beauty Care many years ago. So we can see that we think that's structural and our job is to put small teams on the ground to help us develop that. We've got R&D locally, I think to that point, Katie, around having balanced production in Asia for Pharma. Yeah, I mean part of our strategy is to put, we bought, Solus Biotech, biotechnology in Korea, there's a great ceramide business there, there's a great Pharma business in there as well.

So we're looking closely at Korea as a site to manufacture, particularly for North Asia, including China. So part of our plans is to make sure that we've got capacity there, but of course we've got plenty of capacity in Lamar and priority will be to use probably Lamar and Korea to serve the Chinese Pharmaceutical market. But it's growing very quickly and it's quite exciting in terms of the consumer health point, I think I mentioned in the script, we need to renew our focus there. If you can cast your minds back three or four years, it was a massive optimism and real excitement around mRNA and lipids, but these things are taking a little bit longer to get to market and a lot of our focus was that pipeline and growing that pipeline. That pipeline continues to grow very well. Unintendedly, you lose a bit of focus from the core business and I think that's fine. So part of this is regaining some business, but actually with Thomas as well, it's taking it much further than that and creating an innovation program that is akin to what we see in beauty in the heart of this business. The heart of this business, consumer, is a fast returning, high returning business for Croda and we think there's lots of good opportunities there to scale that. And again, it has similar attributes to beauty in terms of customer fragmentation, small local customers coming on the market as well. So I think in the round hopefully that answers those three questions. Lisa?

Lisa De Neve: Hi Lisa, Morgan Stanley. I have two questions. So my first question is coming back to the cost savings program, can you give us an idea on how we should think about the net retention of that cost savings program over the next three, three and a half years? That's the first question. And then maybe talking a bit about pricing, can you just detail, I mean where you've experienced some negative pricing in the first half and how we should think about that into the second half and onwards. Thank you.

Steve Foots: Okay, well let's go to Stephen for your first point and I'll do the pricing point.

Stephen Oxley: Yeah, so hi Lisa. So on the net retention, the hundred million of annualised savings, it won't all drop through on a net basis. I mean you saw on that margin chart how it contributed. We'll continue to present it in that way so you can see the savings benefit, but of course we'll have inflation and then further startup costs for the investments inflation, you'll take your own view, but think of, I don't know, £15 million or something like that a year. And then there's a little bit of the startup costs, but my expectation clearly is that those savings and the greater level of savings will outpace those headwinds and that will then significantly contribute to an accelerated recovery in margin.

Steve Foots: And back to the pricing point, I think pricing comes with volume particularly in the industry at the moment. And you see that with the results, volume growth 11% and it's across the board excluding actives, Beauty Care and Home Care are up high single digit volume growth. The rest of them are double digit volume growth. And what we should see, what you should take from that is a recovery and crop leading the volumes in the crop and ag space, but a regain in market share in the beauty space, business that's rightfully ours. So that's been, if you like the summary and probably the highlight of the first half, we have given some price back. You can see that we've been open with that. I think that's inevitable in the environment that we're operating in and in crop we've given it back in the bottom 20% of the portfolio. The bottom of the portfolio is not increasing; it's just got more competitive.

And as you can imagine in the industry when everybody's trying to fill factories, if there is a bit of undifferentiated business, well guess what? There is a bit of price competition. We've seen that so many times before and the same, slightly different in beauty care, but similar in that the bottom end of the portfolio is not changing. But on top of that we've gone back to regain business, it's rightfully ours and the market's saying we want you to have that business back as well. So Beauty Care volumes of 8%. We are growing ahead of market but we are conscious we have given some price back. Nicola has been waiting patiently to be fair. So David, Nicola first.

Nicola Tang: Thank you. It's Nicola Tang from BNP Paribas Exane. It's actually a follow up on the pricing point actually, so it ties in well. Could you talk a little bit about your expectations for the second half then both in terms of the dynamics around raw materials, but also whether you think that there may be more strategic pricing to give back. And then the second one maybe just on the Beauty Care industry, sort of two separate questions. One would be you mentioned a structural change in terms of a shift towards local and regional versus multinational customers in terms of the market. Can you talk a little bit about how those multinationals are responding and how you balance serving

more with the local and regionals but also trying to keep the multinationals on your side. And then the second part, you mentioned at Q1 that some customers in beauty care were considering and thinking about reshoring and response to tariffs. I suppose tariffs is less of a topic now, but could you just give an update on what's happened with those discussions and whether customers have done a bit of reshoring and response to tariffs? Thanks.

Steve Foots:

I mean pricing, I mean you're going to see when we look at the second half, we're not expecting the market to change. That means we're not expecting the environment to be any better or any worse. We expect quarter two into the second half. So in the way we look at it, you can get into the price volume discussion, but we're expecting quarter two is a normalised period for Croda. So we're expecting projections looking at full year to be similar to quarter two trends. So the volumes moderated, but so did some price. So I think in terms of that, it all depends on the business mix and the product mix, but raw materials are sort of flat to slightly up and there will be some price increases that we're putting through as well just to manage particularly busy sites as well and particularly raw materials that are moving up.

I think on your point on structural change, of course the MNCs will respond, but we could have flashed up three hours of slides on the winning agenda of local and regional and how we're helping them all around the world. This is not just in China now it's in lots of other places and we expect that, but we also expect, we have strategic partnerships with a lot of our multinationals. So I mean they're responding as you'd imagine the winners will respond very well, innovating quickly and getting more and more decentralised, which is what some of them are doing. They will acquire as well. They'll use the balance sheet as well where they can to acquire some of these. I think that will continue. But if you look at any stat on Nielsen Data or Mintel for the first time in a long time in virtually every category, local and regional are winning share in each of the key categories.

So we see that as a positive for Croda. As a reminder, a lot, 80%, 81% of our business in consumer is local and regional. And one of the big reasons why F&F are growing as well is they're capturing more and more of this local and regional growth coming through. So they're responding, we want to help them, we have partnerships with them, but it's a combination of innovation and looking to acquire as well, I would say will be their response. And your final question was around beauty care tariffs. Yeah, I mean we are not seeing significant production, new production change from our customers. What we are seeing is what they have done in the past is a lot of the multinationals particularly have got international manufacturing. So where they can, they will transfer from one site to another, whether that's America to Europe or wherever. And I think that's moderated now. So no big manufacturing change, more tactical movements of products for some of our bigger customers. Okay. Chetan. David, I'll come back to you.

Chetan Udeshi:

Hi Chetan from JP Morgan. I was just wondering on your distribution strategy, I'm a bit confused what exactly is going on because you're talking about on one hand, shutting down warehouses, rationalising your distribution network and then you're talking about taking away distributors from your ceramide business. So maybe just curious what's going on with your strategy around distribution. I remember many years ago you started insourcing from

distributors. It's a debate out there whether that's really helped Croda or not, at least in terms of growth. So I'm just curious, what's the latest on the distribution strategy? And just the second question on the utilisation pricing, et cetera, cost savings, what is the end impact of this on margin? I remember a few months back we talked about 20% margin as the new run rate. If you get to 80% utilisation, is that still the case or can you do better now with these cost savings?

Steve Foots:

Okay, I mean we'll flash up the margin bridge in a minute, but I mean on your point about distribution, just to be clear, for the avoidance of doubt, we're a direct selling company and anytime we acquire a business that's got a lot of distribution, we put it into Croda a sort of no-brainer, the right thing to do. I think that the two meaningful points to your question are don't align the warehouse strategy to the distribution. Our direct model is there. What we've seen don't forget is we've taken a big industrial business away from Croda. So our footprint for warehousing has changed subtly. And in some places, like in the UK, one of the impairment in the UK is a consequence of it's just too big. And Brexit has forced us to look at actually redistribution of products from Europe instead of coming to the UK. Why wouldn't you ship them locally into Germany or into France? So the site becomes less of a strategic site because of regulation change and also because of demand, the footprint, the volume footprint we need is smaller than we need. So that was more of a review that we have had in the business for about 12 months and that was the end product of the review. Some of that is, and that's what to Stephen's point is looking at the supply chain network when you don't have a big industrial business in there and slightly different businesses which are more skewed to emerging markets, how do you just make sure you move the products in a more effective way? So underneath all of this is to deliver better customer service. The model doesn't change, it's better customer service. And as we grow, we want the customer service to improve, so that's making sure that with the growth that we've got, customers actually can see an improvement in service. Stephen, do you want anything to add to that?

Stephen Oxley:

No, I mean Chetan, there's no change in the strategy. Just think about it as how we efficiently serve or deliver that strategy. It's just optimising the footprint, optimizing capacity across the whole network. Simple as that. Maybe I'll just pick up the margin point for you there. So look, I mean you can see the benefit of volume in the first half that's coming through in the margin accretion, that will continue amplified by the operational transformation savings that I've talked about. The margins are too low, let's be clear, but it's going in the right direction. We're going to get it back up north of 20%. I'm not going to give a target here and now, but we can see the steps that we have in place quarter by quarter to get the margin back up to an acceptable level.

Chetan Udeshi:

Thank you.

Artem Chubarov:

This is Artem from Rothchild & Co Redburn. I've got a question on Pharma. You've talked a lot about Pharma already, so probably mainly just plug some gaps in my question. So I want to reference back to a Pharma seminar from October, 2022, which actually took place here. When you look at this business first at the category level, so excipients, lipids, adjuvants at the same time there was a platform level view, so nucleic acid, protein delivery, small molecule. So how are you thinking about this business today? And I'm just

trying to understand to what extent these items are working together. So to what extent are they overlapping to what extent your capacity is flexible to switch from one to another? Maybe just a quick colour on performance of lipids specifically. I'm not sure we talked a lot about this today and specifically you mentioned a double digit growth of Avanti since 2020. Is that including the Pfizer contract or not? And very lastly, sorry, long question. Lastly, back in 2022 you had an ambition to grow the Pharma business to £1 billion of sales. Probably a lot of things have changed since then. Have you had any plans to revisit these ambitions given what's happening to date? Thank you. Yeah,

Steve Foots:

Five questions there. Well done. I'll try and decode some of that and help you out. I mean look, you're going to get a very clear strategy from Thomas. There's no big changes, but the subtle changes here, we'll call it a Pharma solutions business. Call it the new Pharma business, which is Leek. You've got Avanti and Lamar in the US and you've got Denmark and Leek, which is more into what I'd call clinical programs. That's relatively small at the moment, but we put a lot of investment in there just for that bit. To your point on Avanti, the research arm is the most productive, it's the big area of focus because of course that feeds the pipelines. Preclinical is the most important thing and you can get revenue from that preclinical before it even gets publicised in clinical one, that's growing double digits.

So it's that bit that continues to grow double digits, 130 new products coming out of the lipid stable in the first half. And when we look at that, we can see where it's going as well. And I think our point about China is well made. A lot of this is ending up in China innovation. So I think we're pleased with that in terms of, I'll come back to your wider point about 2022 in terms of the rest. The rest is really nuts and bolts. Heritage Croda, it's the consumer health business, it's the veterinary business and it's this high purity excipient the injectable business that's hardcore Croda and has been for many years that has got good growth in it. You're going to get a renewed focus on that. We are starting to see that with good growth coming through. And that in many ways is the main core business.

It's got lots of customers, got lots of growth potential, slightly different. That's more of the Pharma ingredients business that we would say, which is more the classic nuts and bolts of Croda. So you're going to hear more of that. I think in terms of 2022, when we were way back then the world was all just talking about mRNA and what you've seen since then is policy decisions which have slowed some of the launches down and also funding handbrakes in particular in some areas which has slowed the longer-term pipeline down. But it still looks very, very exciting for Croda and we'll update you and refresh you with our strategy and what that means for the growth. But we're still very excited. But you're going to see some temporary, temporary blips because of FDA and short-term positioning in the US but at the same time you've got a really interesting growth agenda now in Asia for Pharma, which looks much bigger and more exciting than we've had before. So you've got to balance all of that, but we'll square the circle with that because we are very aware that we want to update you on the equity story for Pharma, and I think we can do a very nice job with that when the time's, right.

David Bishop:

Three questions from the webcast first, another one from Katie Richards. She said you've been guiding to Crop being tougher in Q2. Actually overall H1 was

strong. Why was that? Secondly, Ranulf Orr our covering analyst at Citi. It said you've been able to double your savings target. Why were these targets not initially there and does this have any implications for your ability to grow? And then thirdly, Araceli at Ananda is asking would profits in IS go to zero if there was no Cargill supply agreement? She's trying to understand the floor for profits in the industrial specialties business.

Steve Foots: Yeah, well let me do Crop, and then I can let Stephen pass on to you for the savings targets and IS, I mean just on crop, I mean in simple terms, Europe's been much stronger. Europe has really rebounded very strongly and actually in Seed as well. So Europe's been the big strength and it's been above our expectations in the first half. So I think a lot of that has been that surprise in crop.

Stephen Oxley: Just stand back ran off on that. So the way I'm thinking about transformation and efficiency, this is about growth and cost savings. It's not one or the other. It's enabling growth and then driving a bigger business more efficiently. Alright, so we had £40 million originally that we talked about in February. As we've got into that and we've taken a really close look at that and getting into detail, it's just abundantly clear that there's more that we can get at both tactical savings and then more importantly structural savings, particularly in operations, manufacturing and procurement that I talked about. So it is just getting under the skin. I'm confident of £100 million and let's see where we go after that. IS, we talked about there, the change in the mix of that business. The Cargill business now is down to a few tens of millions. It's a handful. I mean it's not a massive business, but the business overall, both within that segment and our direct sales, it's all profitable.

Steve Foots: Okay. Matthew, you've been waiting patiently.

Matthew Yates: Thanks Steve. Stephen, if I can just come back to the cashflow. I think it was Charles question at the beginning when you said that you're not happy with the inventory, was that in the context of the order book here and now or in the broader sort of structural levels that the business should have?

Stephen Oxley: Thanks Matthew. Very much the latter. So nothing to do with the short term order book at all. Look, if you think about our model, we are going to carry more inventory than a business that's selling to a distributor. So that's for sure. We have two lots of inventory, but if I just look at inventory across the cost base, across the asset base, it's clear that we've just not optimised that. So it is just literally going through skew by skew, site by site and bringing that mindset and shifting the mindset more to cash and optimising capital. And it's right across the board.

Steve Foots: I think just to add to why it's up as well for the first half, you've got volumes up. We've planned ahead for some tariff changes. We put stock on the ground in locations and also we've had a couple of shutdowns as well so you're putting stock on the ground, but reinforcing Stephen's point, once you look at this above end to end, you can take a different view about working capital. It's always been in the region. So hence the reason to try and simplify and standardise.

Stephen Oxley: So if I think about the F&F business there, we very, very much make to order with a rapid turnaround from agreeing the product with the customer. The rest of the business is more made to shelf and that will be the case. But the more we can squeeze that down and carry less inventory overall, particularly linked to the product or skew rationalisation, that's where the opportunity is. So it's not just a kind of magic wand on working capital, it's looking at the whole of operations, supply chain warehousing and the product portfolio.

Matthew Yates: Second question is around pricing. And I'm struggling a little bit with the consistency of messaging and communication here. So on the one hand you've got slide, I think it's 27, showing gross product margins pretty similar, although it's hard to tell from the axis. And clearly on slide 14 in the profit bridge you're showing you've lost basically half the operating leverage on pricing give back. Can you help me understand how much of the portfolio falls into this sort of less differentiated bucket? I think you helpfully said on Beauty Care maybe about 20%. I mean my simple math would suggest that you've cut prices 20, 25% in that business. But the problem is you're bundling price and mix together. So my math is probably wrong, so you're welcome to correct that. But then if we look at Life Science, what sort of proportion of the healthcare or the AG business falls into that non-differentiated piece and how much pricing are you having to give back in those areas?

Steve Foots: Yeah, I'll start. I mean the analysis that we've done consistently now for two or three years is the price give is in the most undifferentiated part of your business. Otherwise, it would be differentiated. 20% in crop for four customers and probably 10 to 15 customers in beauty care. And it's about 20% there as well. And that's a coincidence rather than a round number by the way. So what you're seeing is that the price/mix, three quarters of this is price that we're giving back, but some of that is a product mix effect within the business as well. Then there is the business unit mix which is one quarter.

So you're regaining more business in the tail, so you've got an average selling price that's slightly down. If you look at our gross margin percentage, virtually every business is up. The one that's slightly down is Beauty Care and that we expect that because of the regain in some business, but that's temporary. So I think we look at it across the businesses as a good proxy of quality and quite a lot of the businesses are up in our terms in gross margin, in gross margin percentage year on year. So the quality of the business going in is fine. I think that margin bridge tells you a lot when you're growing volumes at that level deliberately you're going to get a bit of a trade off. And as we go forward, clearly that volume's going to moderate, but I'll tell you what the price will as well because you're going to see Croda starting to do what we normally do, which is de market and refine and purify the margins and that will come through. So it's mainly focused in two businesses in crop number one, and then Beauty Care second. But I mean Steve, you add.

Stephen Oxley: I think you've got to look at those two bars together at the start there. And there is a direct correlation between where we are giving some price and the volume recovery, which is exactly what you want. We are regaining share that we had to seed where we didn't have sufficient capacity and of course to bring that business in one element of it as being competitive as you'd expect. But we are better off having that business within our stable that we can then manage and optimise including pricing. So that's the key thing. I think you

talked about the gross margin. When we have that gross margin percentage, it is quite simple. It's kind of sales less, very direct cost. It's not the see-through cost of the entire cost base that flows down to operating margin. That's why we want to think about individual customers and products to think about, see-through profitability all the way down, understanding the complexity of the supply chain.

Steve Foots:

There's a lot of people with negative price mix in the industry. There's not many with good volume growth and you have to put them together. Okay. I think we'll stop there. Great. Alright, well thanks very much for finding the time to come and also with your very interesting questions. So we'll stop there. Thank you.