

Croda International Plc

Results for the three months ended 31 March 2025

Call transcript

Key:

Steve Foots – Group Chief Executive

Stephen Oxley – Group Chief Financial Officer

Anthony Fitzpatrick – President Strategy, Corporate Development & Industrial Specialties

David Bishop – Director of Investor Relations & Corporate Affairs

Operator

Hello, and welcome to the Croda Q1 2025 Sales Update. My name is Laura, and I will be your coordinator for today's event. Please note, this call is being recorded and for the duration of the call, your lines will be in listen only mode. However, you will have the opportunity to ask questions at the end of the call. This can be done by pressing star one on your telephone keypad to register your question. If you require assistance at any point, please press star zero and you will be connected to an operator. I will now hand you over to your host, David Bishop, to begin today's conference. Thank you.

David Bishop – Director of Investor Relations & Corporate Affairs

Good morning, everyone. Thank you for joining us for an update on our Q1 sales performance. It's a busy day for us with board meetings and the AGM, so, it's an earlier start than usual. I'm here with Steve Foots, our chief executive Stephen Oxley, who joined as new CFO three weeks ago, and Anthony Fitzpatrick, who, as you know, preceded Stephen as interim CFO before now resuming his previous roles, and so was CFO during Q1.

Okay.

Hopefully, you've all had the chance to read our statement. But let me hand over to Steve for a brief overview, after which there will be time for questions from our covering analysts. Steve.

Steve Foots – Group Chief Executive

Thanks, David. And morning, everybody from York. Yes. Three quick summary points from me before we get to Q&A. I think, firstly, it's been an encouraging start to the year. Sales were up 8% reported and 9% in constant currency. This is driven by good sales volumes across all three businesses. With the price mix headwinds we saw in 2024 starting to diminish.

Breaking that down in consumer care, sales were up 8%, driven by demand from local customers, which are continuing to do well. We saw particularly strong growth in fragrances and flavours. Again, beauty care and home care grew. Sales mid-single digit. And whilst beauty actors were slightly down versus a good comparator, sales were significantly up compared with the fourth quarter of last year.

Life sciences grew 10%, or by 11% at constant currency, with growth across all business units. Sales were strong in seed and crop, with pharma also higher than last year, as well as compared with quarter four. Although consumer health and veterinary markets remained soft, that was more than offset by continuing momentum in biopharma markets. And lastly, industrial specialties also saw higher sales volumes, driving continued sales growth. So, as I say, good growth across the board.

And whilst this is a first quarter sales update, it's worth sharing that group pre-tax profit was in line with our expectations for the quarter. Secondly, as a result of higher sales volumes, asset utilisation at our 11 shared manufacturing sites continued to improve. We're well on track implementing our plans to realize £25 million of annualized cost savings this year. And while

simultaneously identifying further opportunities for efficiencies that will benefit future years. So, overall, we're making good progress across the five areas that we set out in February to improve the group's financial performance.

And then, finally, whilst our well-balanced local manufacturing and procurement model limits the likely direct impact of tariffs, we're of course assessing the likely impact, monitoring the situation closely and talking to our customers and suppliers as you would expect us to do. We intend to apply a tariff surcharge to cover any associated incremental costs. And whilst the knock-on effect of tariffs has undoubtedly caused the global economic outlook to become less predictable, our guidance for the full year is unchanged. So, okay, let me stop there and let's take your questions.

Operator

Thank you. Ladies and gentlemen, as a reminder, if you would like to ask a question, please press star one on your telephone keypad. We'll pause for a brief moment. Thank you. We'll take our first question from Sebastian Bray of Berenberg. Your line is open. Please go ahead.

Sebastian Bray – Berenberg

Hello. Good morning and thank you for taking my question. Could you let me, could you give us an idea of the percentage of sales or to which tariff surcharges could be applied at the group, or some type of annual impact guidance? How much of this is personal care? How much could be pharma? I appreciate it's early days and any comments on price versus volumes at the group level. Was pricing roughly flat? Thank you.

Steve Foots – Group Chief Executive

Yeah. I mean I'll start with the pricing. I mean, it was all volume growth. There's a slightly negative slightly negative price, but it's a low single. Very low single digits. And so, you know, it's big volume growth across virtually all of our business, which is good. And in terms of, I think in terms of the tariffs, we would say, look, the major, in terms of direct impact for Croda, the major flows are Europe, UK and Europe, to America.

We said £97 million before, in February it's going to be significantly less than that given the exemptions that we have for some product streams going into America. And then, the other major flow that we're more preoccupied with is America to China. And that's 15, one five million of revenue. So, that's much more modest that goes into China. And most of that 15 million can be made in either Europe or in Asia for China.

Sebastian Bray – Berenberg

That's helpful. Thank you.

Operator

Thank you. We'll now take our next question from Artem Chubarov of Redburn Atlantic. Your line is open. Please go ahead.

Artem Chubarov – Redburn Atlantic

Good morning. Thanks for taking my question. First, a quick follow up on price volumes. So, I think the press release reads as negative pricing is not as negative as the year before. So, correct me if I'm wrong, and if it's true, is it a function of raw materials turning more positive, so you have to price it in? Or is it because competitive environment is getting better, so you don't have to offer any price discounts? That's the first question. And then, secondly, on crop protection, would you provide a quick outlook by region? What are you hearing from your major customers in different regions in crop protection? Thanks very much.

Steve Foots – Group Chief Executive

Yeah. So, the first point, I mean, we've been consistent with this, that we've said that, there's been a very unusual price element in the mix for two years. That's a function of raw material

inflation rather than a function of competition. And as you start to see, we had strong volume growth last year, but quite negative price, that price is diminishing. And it's because the raw material background is more stable. It's not the competitive, any competitive change.

So, what you're expecting, as we expected it to be is that volume growth has continued this year. But because the negative price is not essentially in the mix, in the same degree, you're getting strong revenue growth. So, all of the majority of that is a function of raw material.

I think in crop, three points, I mean, broad recovery in tier one across the board, that's the four big multinationals, in all regions. But Europe is the highlight. Europe is coming back. It's had its planting season or in the throes of its planting season now. So, Europe is leading the growth and we're seeing continued growth in the tier three, the local customers, as well as the Croda model is picking up decent revenue growth from the smaller customers as well.

Artem Chubarov – Redburn Atlantic

Thank you.

Anthony Fitzpatrick – President Strategy, Corporate Development & Industrial Specialties

It's Anthony Fitzpatrick here. Maybe I could just add one more piece of detail for you. As Steve described on the pricing, I think it's important to note as well, that our gross margin across the business was very stable. That trend that we described at the full year and beyond. So, the pricing is very much built in to how we think about the business. And that gross margin stability is very much evident in our numbers as well.

Operator

Thank you. We will now take our next question from Lisa De Neve of Morgan Stanley. Your line is open. Please go ahead.

Lisa De Neve – Morgan Stanley

Hi. Good morning and thank you for taking my questions. I have two. The first one is, you stated that you would be applying surcharges where needed. To which extent have you already engaged with customers on this? And if required, how quickly would you apply these surcharges? That's my first question. And the second one is, I mean, you have delivered quite a strong first quarter. I mean, congratulations on that. Can you give us an idea on the exit rates into the second quarter and your order book visibility, given the uncertain backdrop? Thank you.

Steve Foots – Group Chief Executive

Yeah, fine. The surcharges is pretty straightforward. You know what we like with pricing. We'll recover margins, all of them. So, we've agreed we will do that again this time around. I mean, interesting with customers, there's a lot of customer engagement because as you, as you can expect, quite a number of our bigger customers are trying to relocate production to manufacture in other locations. So, for example, L'Oreal are now ramping up sort of production in France rather than America. you've got a number of the crop companies wanting to move production.

So, our job there is two things. One is to be clear on what the surcharges are so they can understand their total production hit or cost hit, which will help them decide on locations. And secondly, is obviously to make sure the stock's in the right place for a change in location. So, yeah, we don't expect any significant issues with that.

And in terms of the trade flows that we have that we've talked about earlier with the answer to a question, you know, a lot of those, where we've got quite considerable pricing power. So, you know, we would expect to pass those on anyway. So, we're applying surcharges to that, and they'll go through immediately.

And then, the second question was exit. Yeah. I mean, exit rates. We've had a good quarter one. Macroeconomy, as you know, is uncertain. Visibility is still short. It's about four weeks in the order book. We're not seeing any clear signs of that uncertainty in our performance or in the order book. But quarter 2nd may well be below quarter one, but we're expecting continued good sales growth.

Lisa De Neve – Morgan Stanley

Thank you very much.

Operator

Thank you. We'll now take our next question from Charles Eden of UBS. Your line is open. Please go ahead.

Charles Eden – UBS

Good morning. Yeah. Thanks for taking my questions. Just first one, just a quick clarification on crop protection. You say strong sales growth in Q1. Any chance you could just help quantify that to sort of the constant currency growth for both in Q1 if that's possible please.

And then, second question is for Stephen. Obviously, you've had a whole 22 days to get your feet under the table now. So, I just wanted to hear your very early thoughts on what you've seen and what you set as your initial key priorities as the new CFO? Thank you.

Stephen Oxley – Group Chief Financial Officer

Okay. Yeah. Hi, Charles. It's Stephen. I'll pick up the top one first, which is high teens over the quarter last year, which, obviously, is a strong recovery.

So, look, you're right. 22 days in. It's three weeks, so it's pretty quick. I've spent all of that time meeting lots of really great people. Hearing really good stories about our technology and customer relationships. So, look, really good start. But I think it's worth saying that the group's invested, Charles, as you know, an awful lot of money, over the last few years, in CapEx and Opex, and quite frankly, the returns and margins on that is too low, hence the five point plan that Steve's outlined.

And in my view, there needs to be more of that. For me, that starts with customer and focusing all of our efforts on pleasing our customer and driving the top line, and then, really importantly, driving efficiency and discipline into the business. And from my perspective, that includes the balance sheet and working capital. And for sure, there are opportunities and areas where we need to be better. And that, quite frankly, is my focus.

So, Charles, I think, look, it's a good, encouraging start to the year. I was really pleased to see that volume progression. And as Steve said, the price mix headwinds that we've had are abating. That was low single digit for the quarter. And I think, look, in the new world, being local and regional, I think is a really good thing. And we've just got to control the things that that we can control. The world is getting harder, there's no doubt about that. And what does that mean? We have to respond. We have to respond through pricing. But as the world gets harder, that also means driving transformation harder and faster, as far as I'm concerned. So, lots to do, lots of opportunity. And great to finally be in here.

Charles Eden – UBS

Yeah. Appreciate it. Thanks both. And thanks for the help in the interim Anthony as well. Really appreciate it.

Operator

Thank you. Once again, as a reminder, if you would like to ask a question, please press star one on your telephone keypad. We'll now move on to our next question from Chetan Udeshi of JP Morgan. Your line is open. Please go ahead.

Chetan Udeshi – JP Morgan

Yeah. Hi. Morning, all. I had a couple of questions. First, for Steve, you know, L'Oreal mentioned last week that they were building stock ahead of demand to protect themselves from tariff driven uncertainties. And I'm just curious, do you see any signs of pre-buying in any of your businesses, in Q1 or what you might have seen so far in the second quarter?

The second question was, you know, you had an EBIT margin of 18% in H2 last year. You're talking about volumes improving in Q1. So, is it fair to assume that in Q1 you are probably at least at 18% or even slightly higher than that? Just to get a sense of how the phasing looks like for full year now with Q1 behind us. Thank you.

Steve Foots – Group Chief Executive

Yeah. I mean, let me do the first question. I'll just play David in for the second question. I mean, no, we're looking right around our customer base, and we don't see any tangible evidence of pre-buying as yet. I think there's positioning and we have a lot of discussions with our customers.

And L'Oreal is a good example where, you know, we're in regular discussion with them. But a reminder to you all, you know, it's 80% of our revenue in consumer care is small and local. So, we you know, we have a good line of sight, the multinationals, there's probably about 8 to 10 of them are the ones that we're spending the most time with, because they probably have the ability to move production much more than others. But no, definitely not. And not in the other businesses as well. You know, we're not seeing any evidence of that on margins, David?

David Bishop – Director of Investor Relations & Corporate Affairs

On the margin, there's a couple of slightly contradictory things going on. So, firstly, you'll see in the business performance that mix was slightly unfavourable, both in consumer care and in life sciences. And as we've said for some time, we're expecting the product mix in 2025 in industrial specialties to normalise after a favourable mix in 2024.

Having said that, as you point to, the volume led sales growth is improving asset utilisation at our 11 shared manufacturing sites, and we're on with the cost saving program, which will continue to ramp through the year. So, overall, the Q1 margin was higher than the Q1 margin in 2024, and we were happy with the margin performance in the first quarter.

Operator

Thank you. We will now take our next question from Nicola Tang of BNP Paribas Exane, your line is open. Please go ahead.

Nicola Tang – BNP Paribas Exane

Hi everyone. Thanks for taking the question. I thought I'd ask one on pharma. It seems like the consumer health and the vet side are the only areas that are still a little bit weak. Could you give any more commentary? And what should we be looking for to indicate signs of improvement in this area? And then, the second one, Steve, you mentioned Q2 might be below Q1, but you don't think there's pre-buying. So, can you just help us to understand what might be driving that? I appreciate the low visibility at the moment, but any colour you can give would be helpful. Thanks.

Steve Foots – Group Chief Executive

Yeah. I mean, on the pharma, as you say, it's good growth in pharma generally driven by biopharma in part with all the new product growth, nucleic acid protein delivery. Avanti's had a very good quarter one. We have actually seen some modest growth in consumer health and veterinary in quarter one, but still, it's below our mid-term growth expectations for the business. So, you know, there's still work to do there. And we anticipate a slow recovery through the year. So, I think that's just going to, yeah, we'll just monitor and update you through the year on that.

On the quarter two, I mean, you know, there's no evidence in the order book that we're seeing a deterioration. So, it's more it's more around, you know, the mood, the mood music. And whether we do see a softer period or not. It's difficult to say. So, there's nothing you can point to, particularly at the moment, around that. So, I think, it's more around just managing, you know, staying close to our customers in the right way and making sure that we're doing everything we can to support things like relocation and price tariffs.

And we still expect sales growth as well. You know, we would expect good sales growth in quarter two as well. I think as a reminder to you all, we said in February we expect gradual improvement in our core markets. So, we are seeing that improvement and a lot of customers are local and regional. So, we're in a good position to capitalise on that.

Operator

Thank you. Once again, as a reminder, if you would like to ask a question, please press star one on your telephone keypad. We'll now take our next question from Charles Bentley of Jefferies. Your line is open. Please go ahead.

Charles Bentley – Jefferies

Hi. Thanks very much. I just had a couple. So, just kind of following up on the kind of principle of pre-buy and the messaging we've had from crop kind of majors seems to suggest that there's been a bit of an attempt to move volumes into region, particularly from Chinese producers into the US. So, just kind of any thoughts about, I mean, does it feel like you're seeing normal activity within that market, or is that, has that seen any kind of sequential phasing? I mean, again, both thinking about how Q1 developed and then kind of the order book into Q2. So, that's the first question.

And then, the second one was just, I know you kind of keep on talking about this utilisation rate across the shared manufacturing sites. Can you just give an update as to where that stands today and kind of where it was for the quarter? Thank you.

Steve Foots – Group Chief Executive

Yeah. I mean the AG situation. We're not seeing any big, big change. I think, you know, we said before, the recovery is in tier one, so, all the four multinationals, are growing. And, you know, Europe is the highlight of the growth. We don't have that China America factor to really deal with. That's a different part of crop. And I think with that we are just gradually, the crop market is gradually recovering. So, the question for us is always making sure that we, we satisfy that growth as it comes through with stock in the right places. So, we're not seeing any anything unusual order intake is what we would expect with that business. And the conversations are the normal conversations we would have.

I think in terms of utilisation rates, we showed you a graph in February. You know, if we flashed that graph up now, it's on track to deliver on our two-year target of getting back to utilisation rates of normalised levels. So, there's nothing more probably to say on that. But if you look at beauty care, IS and crop are the three major volume drivers. They're all growing healthily in volume. So, we're pleased with that.

Charles Bentley – Jefferies

Thanks, Steve.

Operator

Thank you. We'll now take our next question from Georgina Fraser of Goldman Sachs. Your line is open. Please go ahead.

Georgina Fraser – Goldman Sachs

Hi. Good morning, everyone. Thanks for taking my questions. And congratulations on a very solid start to 2025. My first question is, Steve, really interested in this trend of relocation. And you highlighted L'Oreal and CeraVe looking at relocating from the US to Europe. Could you say a bit more about the rationale for customers relocating? I mean, obviously, that's exactly the opposite of what the US administration is trying to achieve. It's supposed to be onshoring to the US, so, I'd really love to hear more of your insights on that topic.

And then, the second question is, you said on the second quarter no change in trend so far, obviously, that you appreciate the potential for things to get a little bit weaker given the macro picture. Where in your portfolio would you expect to see that materialise first? if you could highlight the more sensitive parts to the macro in your portfolio would be helpful. Thank you.

Steve Foots – Group Chief Executive

Yeah, I mean, the L'Oreal example was one example on the relocation, but there's plenty of examples of people relocating to the US as well. We would say that as well. So, it depends on your customer and their positions. I was just actually looking at Euromonitor for the beauty industry. And I know one or two of you reported on this, but, you know, quite staggering stats that local manufacturing, manufacturers are making strong, strong share gains across all categories in beauty now ahead of MNCs and unusually premium has underperformed mass in most categories as well.

So, what you're seeing is this constant move to local demand, local production. And I think this might drive accepting the tariffs are probably a temporary sort of event. It will probably drive local, local and regional demand more and more, which is great for us. You know, we think that's a healthy move and we're well positioned for that. So, I think, that's that, lots of moving parts, as you'd expect.

I think the second thing we're not seeing anything. I think if we're going to see it anywhere, you're probably going to see it in crop because of the seasonality and the repositionings and the breadth of the MNCs. But, we're not you know, there's nothing in our order book that would suggest there's any change.

Stephen Oxley – Group Chief Financial Officer

I think, just standing back, what we don't know, obviously, is what happens with consumer confidence, particularly in the US, but obviously, beyond as well. And we're just going to keep a watching brief on that. Look, we track sales daily across the whole group and there's nothing to suggest, as of yesterday, that we're seeing orders significantly softening or an acceleration with pre-buy. But we've just got to remain focused and focus on what we can control, quite frankly.

Georgina Fraser – Goldman Sachs

Great. Thank you very much.

Operator

Thank you. There are no further questions in the queue. I will now hand it back to David for closing remarks.

David Bishop – Director of Investor Relations & Corporate Affairs

Thank you, Laura. So, an encouraging start with growth across all three businesses. We're delivering the five-point plan including the £25 million of cost savings. And whilst the economic outlook is less clear, Q1 PBT was in line and our full year outlook is unchanged as things stand. You know where we are if you have any follow up, have a good day.

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