

Sector reviews

Consumer Care strategy:

The most responsive, innovative and sustainable solution provider



“Proximity to our customers is now more important than ever – our ability to facilitate fast innovation and minimise customer time-to-market is creating significant opportunities. We supply the ingredients, and on-trend formulations, as well as broader support in areas like regulatory expertise to deliver that all-important element – speed. For our customers speed is the new IP.”

David Shannon, President Consumer Care

Business units

Beauty Actives

(c.15% of sector sales)

Beauty Actives operates in the highest premium part of the market, offering customers scientific expertise for unparalleled product efficacy. Croda leads the market with the largest actives portfolio, through three brands: Sederma, for differentiated skin actives derived from peptides and biotech; Alban Muller, for natural botanical actives; and Crodarom, for botanical extracts. The strategy is to be the ‘go to’ provider for performance claims, reinforcing our leadership by expanding our footprint, accessing sustainable technologies, leveraging the recent Alban Muller acquisition and targeting new acquisitions in adjacent technologies, such as the recently announced Solus acquisition.

Beauty Care

(c.55% of sector sales)

Beauty Care delivers differentiated ingredients across skin, hair and solar care, with a heritage portfolio which is the second largest in the industry. The strategy is to strengthen Beauty Care through a focus on growth and agility in the target market segments, innovate in sustainable effect ingredients, deliver a full service formulation capability for customers and differentiate our products through a rich data set which customers can leverage to meet their specific market needs.

Fragrances and Flavours (F&F)

(c.25% of sector sales)

F&F is the preeminent emerging market provider, with near-global reach and innovative technologies that meet smaller customers’ needs. This is delivered through two fragrance brands: Iberchem, differentiated by its customer intimacy and responsiveness; and Parfex, with its excellent reputation in prestige markets for fine and natural fragrances, as well as Scentium in Flavours. The strategy is to develop the business as a leader in sustainable fragrances, unlocking the potential of F&F through organic growth and driving synergies with Croda’s ingredient customer base.

Home Care

(c.5% of sector sales)

Home Care is focused on bringing Croda’s ingredients to selective premium home care markets. This is delivered through two technology platforms which deliver improved efficacy and sustainability: fabric care, with proteins that increase the lifetime of clothes; and household care, with sustainable alternatives to fossil-based surfactants.

Consumer Care SDG alignment:

Contributes to 19 SDG targets



Total number of Consumer Care customers:

6,100

up from 4,300 in 2014

Presence in

>120

countries, up from 54 in 2014



For more information on Consumer Care, see the investor seminar hosted in March 2022.

Strengthening Consumer Care to be more responsive, innovative and sustainable

Croda has the broadest range of critical Consumer Care ingredients in the industry, speciality products that are both sustainable and underpinned by performance. Our business model helps us to win; operating in over 120 countries, Croda supports customers large and small globally.

The Consumer Care strategy reflects the megatrends that shape consumer behaviour and drive our customers’ needs. Consumers want performance and will pay a premium for high quality, innovative formulations and substantiated product claims. They also want to live their lives more sustainably and this is impacting their decisions when it comes to the products to buy.

Our ambition is to be the world’s most sustainable, innovative and responsive solution provider. Already recognised as a market-leading innovator, our strategy is to continue to strengthen Consumer Care in fast growth niches, by accelerating innovation, expanding our sustainable product portfolio and enhancing our customer intimacy. Leadership requires us to deliver sustainable ingredients with the best performance and data to support customer claims. We will also lead in formulation science and application technologies.

Our innovation is improving the sustainability of our ingredients and finding high performance replacements for fossil-based products. New Formulation Academies enable us to showcase our ingredients, educate customers on their use and develop finished formulations for customers, incorporating both our performance-based ingredients and emotion-driven fragrances and botanicals to deliver complete solutions. This is particularly attractive to smaller companies, who can partner with Croda to launch products to the market at pace.

With the personal care market in Asia developing rapidly, we have a ‘fast grow’ programme to expand our technical and sales presence. This is being supported by selective expansion in manufacturing and a focus on acquisition opportunities, targeting adjacent active technologies and natural ingredients. We have reached agreement to acquire Solus Biotech, consolidating Croda’s position across three critical technology platforms of peptides, ceramides and retinol, while adding a North Asia manufacturing facility and biotech innovation hub.

Consumer Care targets annual organic sales growth of at least 5%, supplemented by synergies from integrating the recent F&F acquisitions, with a return on sales at or above 25%, over the medium-term. Its key target markets are skin care, hair care, solar protection, fabric and surface care, and fragrances.

Croda Purpose

Smart science to improve lives™

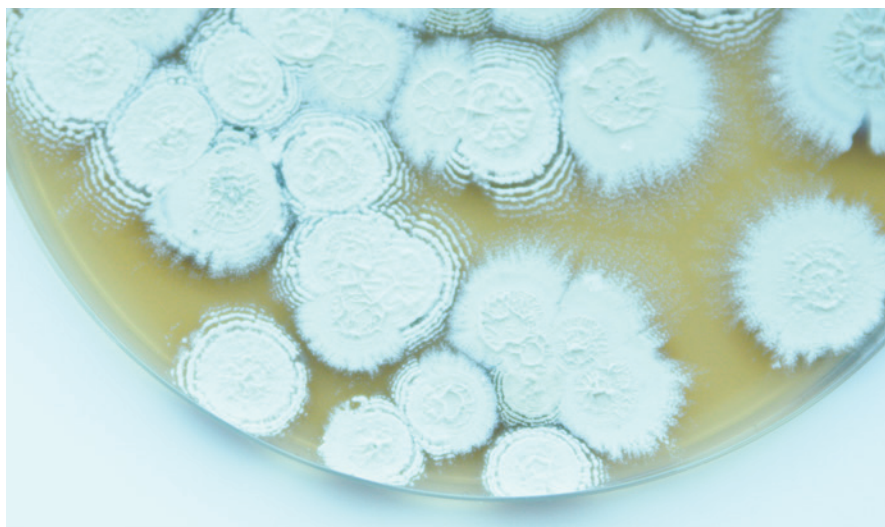
Consumer Care vision

To be the world’s most responsive, innovative and sustainable solution provider in consumer care markets

Strategy to Strengthen to Grow Consumer Care

<p>Responsive</p> <ul style="list-style-type: none"> • Enhance customer intimacy • Full formulation capability 	<p>Innovative</p> <ul style="list-style-type: none"> • Drive innovation in premium markets • Scale biotechnology 	<p>Sustainable</p> <ul style="list-style-type: none"> • Develop more sustainable ingredients • Support with greater transparency
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Fast grow Asia



Leveraging Group-wide capabilities to accelerate the development of natural active ingredients

The move in cosmetics towards replacing synthetic ingredients with sustainable alternatives is increasing demand for naturally sourced actives. In anticipation of this trend, Croda acquired Nautilus, a leading marine biotechnology company based in Nova Scotia, Canada, subsequently creating the Croda Centre of Innovation for Marine Biotechnology.

Leveraging the extensive expertise of Nautilus in sourcing and evaluating potential marine molecules, with Sederma then selecting and scaling up promising natural actives for testing, we have been able to accelerate the development of natural actives. We expect to launch two patented products based on marine micro-organisms in 2023, one for skin care and one for hair care. This follows both in-vitro and in-vivo trials, along with positive customer feedback during previews.

Sector reviews continued

Consumer Care performance review

A solid performance demonstrates increased resilience

“Consumer care products are increasingly synonymous with wellbeing and self-esteem, with consumers willing to pay a premium for new trends and high quality/low impact products that are good for them and good for the planet.”

Sales**£897.8m**

(2021: £763.0m)

Adjusted operating profit**£204.7m**

(2021: £188.5m)

Consumer Care delivered a solid performance in 2022, with record sales and profit but a more constrained second half year performance. Sales were up 18% and adjusted operating profit 9% higher. Across the four businesses, Beauty Care and F&F saw the strongest growth. Beauty Care developed well in the higher value niches driven by demand for sustainable ingredients, such as mineral sunscreens. Within F&F, sales in fragrances recovered after a challenging 2021, as emerging market conditions improved, alongside developing Croda sales synergies and benefits from integration of the recent Parfex acquisition. Beauty Actives had a quieter year, with destocking impacting performance but good progress integrating the recent Alban Muller acquisition. Home Care grew with the roll out of high value protein ingredients.

Sales grew to £897.8m (2021: £763.0m). Price/mix was up 22% as significant input cost inflation was successfully recovered. Volume was 12% lower than 2021, driven by two components. Firstly, excess stocks across our customers and the retail supply chain, following strong demand in 2021 to meet the post-pandemic recovery, led to destocking by customers in the second half of 2022, particularly in North America. Secondly, volume was lower due to selective demarketing of lower margin products due to capacity constraints in some Croda sites, together with the closure of our Russia office. It is estimated that customer destocking has accounted for five percentage points of the volume decline, with five points from demarketing and the balance from Russia and other impacts. Previous acquisitions added 2% to overall sales growth (in their first 12 months of ownership) and currency translation added 6%.

Adjusted operating profit increased to £204.7m (2021: £188.5m). Return on sales reduced to 22.8% (2021: 24.7%), with second half year margin lower due to the gearing effect of lower volume and the impact of the adverse business mix, as Beauty Care and F&F grew faster than the higher margin Beauty Actives business. IFRS operating profit declined to £144.5m (2021: £168.0m), including an impairment charge of £34.6m to the carrying value of the Flavours business, where lower forecast sales and margin have reduced the future value projection.

Delivery of our Strengthen to Grow strategy is progressing well, positioning Consumer Care as a more resilient growth platform. Consumer care products are increasingly synonymous with wellbeing and self-esteem, with consumers willing to pay a premium for new trends and high quality/low impact products that are good for them and good for the planet. Croda is positioned as the leading innovator, developing cutting edge products with substantiated claims and fully assured impact data for customers to develop their new products. In 2022, we published product information dossiers on our products and are developing life cycle assessments and associated carbon footprint data that include the scope 3 carbon emission data for our products. Driving fast innovation and minimising customers' time to market, we have launched Formulation Academies, promoting our full service formulation capability and giving smaller customers greater access to market-leading formulations. With over 70,000 customer/product combinations in F&F and 40,000 across the remainder of Consumer Care, the Academies are benefitting all our businesses, but particularly Beauty Care and F&F.

We are expanding in Asia, with rising regional consumption increasing penetration of consumer care products and Croda's sales now matching those in North America. China is likely to be the fastest growing market, with Croda already well established and serving the domestic market through imports and local production, achieving high single digit percentage sales growth in 2022 despite local COVID lockdowns. With our 'fast grow Asia' strategic initiative, investment in China is increasing innovation and sales resource, replicating our US model to serve a growing customer base of 'Indie' brands and acquiring a site to expand our fragrance and botanical production. More broadly, investment in Consumer Care is focused on expanding sustainable technologies, including biotech. We continue to explore targeted acquisition of adjacent knowledge-rich technologies, building on the agreement to acquire Solus Biotech, with its rich IP and proprietary know-how in biotech-derived beauty actives.

Skin care is a growth market, with the anti-ageing niche we target growing even faster. Beauty Actives has the largest active ingredient portfolio. Underlying sales were flat in 2022 against a strong prior year which had seen sales grow close to 30%, and the business experienced customer destocking in the third quarter but recovering somewhat as the year finished. Beauty Actives increased its customer base and innovation pipeline. Croda is the recognised leader in peptide ingredients, an effective anti-ageing technology, and is expanding into two other critical technology platforms – retinol and ceramides. In retinol, 2022 saw the launch of Revitalide, which is differentiated through encapsulation, leveraging expertise from our Brazil encapsulation centre of excellence, which improves skin penetration ninefold and doubles its lasting effect. We are entering the ceramides market through the agreement to acquire Solus.

Beauty Care saw success from new teams focused on mineral sunscreens and professional hair care, segments growing twice as fast as broader categories. Strong double digit percentage sales growth saw record solar protection sales, driven by consumer preference for mineral-only sunscreens and greater use of UV filters in daily wear products, with sales particularly strong in Asia. We achieved our People Positive commitment of protecting 60 million lives globally through sun care solutions, seven years ahead of schedule. Alongside this success, the consumer shift to sustainable ingredients saw Croda expand its bio-based and milder surfactant portfolio, while Personal Care sales of ECO bio-based surfactants tripled in the year, supporting our ambition to eliminate petrochemical derived surfactants globally. New product launches included ChromaPur, a natural alternative to microbeads that contain microplastics and are currently used in a wide range of personal care products.

F&F is focused on serving local customers in emerging markets, which are seeing the highest growth in fragrances. Sales grew by over 20%, with strong price recovery of raw material inflation. Innovation included bio-based fragrances and the launch of VernovaCaps, only the second biodegradable fragrance capsule on the market. The technology opens up encapsulated fragrances to customers beyond major global brands and has already been selected for fabric conditioners. The recent acquisition of Parfex has increased our presence in fine fragrances and our position in France. We have expanded our teams in Indonesia and South Africa, and launched a new F&F operation in Brazil, leveraging Croda's existing personal care strength. We are investing in China, already a significant fragrance market for Croda.

Following some COVID-imposed delays, we are now driving integration synergies which will deliver nearly €50m of annual sales through combination with Croda's formulation capability. Home Care secured a new contract which will underpin growth in its core protein fabric technology and launched a microbial cleaning technology creating a new sustainable niche.



Biodegradable fragrance encapsulation

Fragrance encapsulation involves advanced delivery systems that allow the timed release of fragrances, critical in various applications such as laundry, fabric softeners and deodorants. After several years of innovation, in May 2022 our F&F business launched its new biodegradable fragrance capsules, known as VernovaCaps.

Iberchem's VernovaCaps are the second biodegradable fragrance encapsulation technology on the market and the only one with a biodegradability profile corresponding to the OECD's standards of 'readily biodegradable'. The new fragrance technology not only offers a high level of biodegradability but is also predominantly bio-based, marking a significant milestone in the sustainability development of our F&F business.



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