# Croda International Plc

## Results for the 12 months ended 31 December 2023

## Call transcript

**Key:**
Steve Foots – Group Chief Executive
Louisa Burdett – Chief Financial Officer
David Bishop – Director of Investor Relations

**Steve Foots, Group Chief Executive**
Good morning everyone, a warm welcome to the London Stock Exchange for our full year results presentation. It's great to see so many of you in the room with lots of others online and Louisa and I look forward to taking your questions at the end. So, on the agenda this morning, I am going to start with an overview of our performance followed by a more detailed analysis of the numbers from Louisa. I will then come back and delve into some key drivers of future performance for the near and long term.

Ok, so starting with performance. 2023 has been a challenging twelve months for Croda and the wider industry to say the least. Having delivered two years of record results due to a surge in demand after the pandemic, we've experienced a prolonged period of destocking compounded by a weak macro environment. Demand was therefore much weaker across most of our markets. The consequence has been a significant fall in volumes, principally in Beauty Care, Crop Protection and Industrial Specialties. The 19% decline in sales also reflects our divestment of PTIC last year and a 50% reduction in lipid sales as the world has normalised post Covid.

Unusually for us, volume declines have caused low levels of capacity utilisation, with negative operating leverage impacting profit margins. Margins were also affected by lower sales of high-margin lipids for mRNA Covid vaccines. Whilst these headwinds impacted our financial performance, there were bright spots across our portfolio. Within Consumer Care, F&F had another outstanding year whilst Beauty Actives and Home Care were broadly flat. And in Life Sciences, stripping out lipid sales, both our Pharma and Seed Enhancement businesses grew.

Furthermore, the technology trends driving our future growth are unchanged and we're continuing to see the transition to sustainable ingredients and biologics. Demand for innovation also remains strong with NPP sales broadly flat versus last year and up in Consumer Care. Cash generation has also been excellent supporting ongoing investment. We've invested through the downturn to drive our future growth. And finally, we've implemented a simpler operating model to enhance our efficiency and customer service, something that I'll come back to later. So, a challenging year but plenty of progress and our confidence in the future is demonstrated by the Board's decision to increase the dividend for the 32nd year in a row.

It's important to look at this year in the context of what we have done over the last 5 and to also take on board this point that 2021 and 2022 were record years whilst 2023 has been a reset. As you can see, we've seen steady progress in each of the businesses within Consumer Care. Beauty Care has been the exception and where the post-pandemic surge was most pronounced. With customer inventory levels now below 2022, we expect to see a return to more normalised conditions going forward.

The 5-year data shows a similar story in Life Sciences. Excluding the significant impact that lipid sales has had over the last 4 years, Pharma CAGR has been an impressive 16% since

2018. Whilst growth has moderated in 2023, the pipeline is growing and we are very well positioned to see the benefits of that in the coming years. In Crop, you can clearly see the surge in demand in 2022, where Russia's invasion of Ukraine compounded the restocking trends seen in other markets, and that will take it's time to work through.

And finally turning to Industrial Specialities. Whilst it is a much smaller business now, it's important not to overlook its important role contributing to the efficiency of our production sites. 2023 was clearly a reset year but reported sales were also impacted by the inclusion of the divested business for part of the prior year.

So, turning to unpack our 2023 performance in a little more detail, and starting with Consumer Care. As you can see from the top left box, the performance has been mixed. F&F was excellent and we saw growth in Actives including the first sales of ceramides from the Solus acquisition. But the table highlights the material fall in volumes that we saw in Beauty Care due to customer inventory corrections and weaker consumer spending. Rebuilding volumes here is a key priority for us in 2024. In terms of the margin decline, as you can see on the bottom left, four and a half percentage points is due to the operating gearing effect of weak volumes. Two percentage points of the margin decline was due to weaker mix, primarily reflecting strong growth of lower margin F&F sales.

Encouragingly NPP sales were up slightly, reflecting continued innovation in the business and the migration to more sustainable ingredients. A great example of that is the 20% plus sales increase that we have seen in our eco range. And we've continued to deliver double-digit percentage sales growth in China and India, high growth markets where we are seeing the benefits of sustained investment. Finally, bottom right, F&F has been the standout performer due to its distinctive positioning in fast growth markets and cost-competitive model. F&F sales were up across all regions, and especially strong in the Middle East. Excellent sales growth that aligns with our acquisition plan and there is plenty more to come.

Turning to look at Life Sciences in a similar way. You can see from the top left chart that the drop in Crop Protection sales was volume-driven with the other businesses growing excluding Covid lipids. Overall sector sales were down by 5% on that basis. The margin declined primarily due to price/mix with much lower sales of high-margin lipids. And 4 percentage points can be attributed to operating leverage, driven by the volume decline in Crop.

Again, in terms of highlights, the underlying picture is more encouraging in Life Sciences than the reported numbers suggest. Pharma is growing and seed enhancement has continued to win market share as a result of our leading position in microplastic-free seed coatings. We are seeing high demand following the EU's decision to ban the use of microplastics in the next five years, and that demand is global.

And finally, in Pharma, whilst we were not immune from the impact of customers reducing inventory levels, Covid normalisation and funding constraints for early-stage biotech companies, the breadth and diversity of our portfolio underpinned a resilient performance. Destocking primarily affected the heritage consumer health business, with lower Covid-19 demand adversely impacting Adjuvant Systems sales as well as lipids for Covid-19 mRNA vaccines. By contrast, drug delivery technologies for Small Molecule, Protein and Nucleic Acid applications continued to grow.

And as you know, as a purpose driven business, we place a lot of importance on our non-financial metrics as well. We've seen a strong improvement in our net promoter scores, with 92% of customers rating our products very highly. We have invested in training to ensure that safety is a value embedded throughout Croda. We've continued to promote more and more women into leadership roles, establishing a leading position in our industry. And we are making great strides in becoming a more sustainable business. That can be seen both in the

impact we are having on people's lives, with nearly 23 million people benefiting from the work that we are doing through the Croda foundation. And also in the impact we are having on the planet with the CDP recently awarding us A-minus across all three key Climate, Forest and Water metrics, complementing our long-standing triple A rating from MSCI.

So, despite the headline numbers this year, there is lots to be really excited about. The structural growth drivers are unchanged and those trends are taking us in the right direction. Croda is well positioned for the macro recovery when it comes. We are focused on executing our strategy, innovating and investing for future growth. In addition to that, our near-term priorities are to capitalise on the steadily improving demand environment in Beauty Care, drive further innovation in Crop and expand our pipeline in Pharma. And we will do that whilst continuing to enhance and improve the way we operate. I'll go into more detail on each of those areas shortly, but first over to Louisa to run through the numbers.

**Louisa Burdett, Chief Financial Officer**
Thank you, Steve, and good morning, everyone. Firstly, as Steve has said, this has been a difficult year, with destocking materially affecting the results we expected to deliver when we stood on this platform last year. But we are pleased to deliver full year profit before tax of £309m, within our final guidance range of £300 to £320m. As usual, I will talk to the adjusted proforma numbers, which strip out the effect of PTIC in the prior period, before we divested it on 30 June 2022. This will be the last time we have to make this adjustment.

On this proforma basis, group sales of £1.7 billion were down 11% against the prior year, due to destocking in consumer care and crop protection, as well as lower Covid-19 lipids. These items were partially offset by a strong performance in Fragrances and Flavours, which continues to grow strongly. Adjusted operating profit of £320m and adjusted profit before tax of £309m were both down 33% proforma, reflecting the impact of negative volume leverage and the business unit mix, as well as lower Covid-19 lipids in 2023.

The effective tax rate on adjusted profit rose slightly in the year to 24% which was driven mainly by the geographic mix of profit. Adjusted EPS was 167.6 pence and we have proposed a full year dividend of 109 pence per share. Pleasingly free cash flow improved year on year to £165m, versus £157m in the same period last year.

Looking at the bridge from adjusted to IFRS profit before tax at the bottom left of the page, intangible amortisation was broadly flat at £37m and exceptional items were £36m. These exceptional items consist of the impairment of the goodwill in our Chinese joint venture, SIPO, taken in the first half; acquisition costs for Solus Biotech; plus, some costs associated with our internal reorganisation which Steve has already mentioned. Therefore, on an IFRS basis, profit before tax was £236m, down from £780m last year. The 2022 profit on divestment of the PTIC business accounted for the majority of the difference between these two numbers, alongside weaker trading.

Turning to the group sales bridge and moving from left to right on the chart. The estimate of not owning the PTIC business in the first half of the year drives a £191m adjustment to sales for 2022.

Against this pro forma baseline, price/mix added 5% in the period, after a very strong increase in the prior year. Pro-forma volumes declined by 16%, largely due to extended customer destocking. The combined effect of acquisitions and FX on sales was neutral, with total sales down 11% on a pro forma basis, and down 19% on a reported basis.

Moving onto the next slide which shows the operating profit walk and operating margin walk. I am only going to talk to the right-hand chart, which shows the Group operating margin declining from 24.7% to 18.9%, or by around six percentage points. Weaker volumes

accounted for approximately 5 percentage points of the decline, with reduced coverage of fixed overheads due to lower capacity utilisation.

Business price mix drove a further 3 percentage points of decline, where Fragrances & Flavours had a very strong year relative to beauty actives and beauty care, and the profit from Covid-19 lipids was lower than in 2022. Cost savings helped to offset these head winds by about 2 percentage points. I will talk about these cost savings on the next slide.

In previous presentations we have highlighted, that on the assumption that demand for our products recovers after destocking, a large restructuring programme to remove material fixed costs out of our footprint is not the right choice for our business. Our preferred approach is to drive continuous improvements across the business, including under the banner of our 'Doing the Basics Brilliantly' programme.

But as Steve will explain later, we did change our operating model from the beginning of 2024, which will deliver some modest annualised cost savings of around £8m, but this change would have been done anyway and was designed to address accountability and simplicity.

But, given how progressively difficult 2023 was, our focus was to control variable costs and maximise cash from the second quarter onwards, whilst continuing with appropriate investment for the future and this chart summarises the story of our cost base during the year.

The two book ends of the chart are the structural adjustments for the cost of running PTIC and the costs of adding Solus Biotech in July. In between these book ends, the most significant items of cost tailwinds were variable remuneration which was negligible in 2023 versus the 2022 charge, lower factory and freight costs as we manufactured and shipped less, and other discretionary items, like lower travel.

Under the fourth item, we offset our normal inflationary pay rises granted in quarter one with headcount curtailment throughout the rest of the year once the magnitude and duration of the destocking had become clearer. And finally, under item 5, late breaking events in Argentina added FX and valuation headwinds at the end of the year.

We're showing you this, partly to confirm where actions were taken to mitigate trading last year, but also to help guide the building blocks of our 2024 performance. Given that the majority of our savings were largely variable in nature, elements of this lower 2023 cost base will need to bounce back in 2024 to appropriately service increased volumes as our markets start to recover.

On this next slide, I will address the building blocks of our 2024 performance. The grey boxes on the slide are directional, rather than an attempt to provide a spot forecast for each item. Firstly, we are not expecting any sales of high-margin Covid-19 lipids in 2024, which will be a headwind to profit of about £30m.

As the business recovers, in the second grey block we expect some variable costs to "bounce back", including production and freight, and variable remuneration will return, a charge of about £25m, following a negligible amount in 2023.

And thirdly, we continue to invest in people and assets to support our long-term strategy. For example, we will see incremental depreciation in 2024, as well as normal salary rises without the offsetting benefit of the headcount curtailment we saw in 2023.

As shown on the final right hand bar, sales growth will offset these profit headwinds to a degree. Steve will discuss the sales guidance range and bring all of these elements together in the 2024 outlook at the end of the presentation.

Moving on to cash flow. EBITDA at the top of the table fell significantly by £192m from £602m to £410m. Despite this, free cash flow increased to £165m versus £157m in 2022. This was primarily a result of two significant items. Firstly, a working capital inflow of £29m in 2023 versus an outflow of £134m in 2022. As expected in an uncertain and declining sales environment, the team acted swiftly to preserve cash, managing an unwind of inventory, down to a year-end stock value of £341m, significantly below the highs at the end of 2022. I would remind you that the working capital inflow of £29m includes an adverse $60m debtor impact driven by the December shipments of CV19 lipids.

Secondly, a combined £60m impact from lower interest and tax charges. The impact of higher interest rates was softened by the focus on cash generation from working capital and from holding cash from the PTIC divestment during the first half. Capex investment was £170m, up from £139m, and within our guidance range of £170m to £180m.

On the next slide on the left-hand side, our underlying capex remains in a range of 6-8% of sales, with incremental capex being invested from 2021 to 2024, as guided, to boost Pharma lipid production capacity in the USA and UK, alongside government investment. We expect total capex, including the remaining Pharma investment, to reduce to around £150m per annum as some of our larger projects near completion.

Looking at net debt on the right-hand chart, leverage at the end of year and after the completion of the Solus acquisition, was 1.3 times EBITDA, towards the bottom end of our target range of 1 to 2 times.

As I said at the start of my presentation, we are declaring an increase in the full year dividend to 109p per share, continuing an unbroken track record of 32 years of dividend progression. The Board periodically assesses other forms of capital return, particularly when leverage is towards the lower end of our target range. We are mindful of continued market uncertainties, so this will continue to be kept under review. Our immediate capital allocation priority is to reinvest for organic growth.

To finish up my section, there are some technical factors on this slide. I am happy to take questions later on this, but for now, would highlight the modest increase in the depreciation charge following investment in recent years, as well as the increase in finance charge with a higher net debt position entering 2023 as things to consider when updating your models. Back to you, Steve.

**Steve Foots, Group Chief Executive**
Many thanks Louisa. I said earlier that the technology trends that will drive our future growth haven't changed; we are seeing an ongoing transition to sustainable ingredients and biologics. Croda is well placed to benefit from these trends having repositioned our portfolio to be closely aligned with them. We've also continued to invest in the business through the weaker demand environment.

We are doing this by adding more depth to our portfolio and by enhancing our proximity to customers to support fast growth in Asia. And in Pharma, new laboratories in India and Singapore are opening up fresh opportunities whilst new capacity for Nucleic Acid Delivery in the US and UK will be transformational in years to come. And it's not just about making progress in the core businesses but also ensuring that Croda is match fit through operational excellence and by investing in fast evolving areas such as AI and data-analytics. As I mentioned earlier, our immediate priorities are highlighted here on the right which I will go through now.

When we talked to you in July, we illustrated how inflated customer inventory levels were versus pre-covid levels in Consumer Care. We have seen these continue to normalise through the second half of the year leading to a steady improvement in volumes. The year has started well and we are cautiously optimistic that this trend will continue through 2024.

Our priority is to capitalise on the continuing recovery in demand, particularly in Beauty Care, our largest and most volume-sensitive Consumer Care business. And because Beauty Care is so key to our recovery, I wanted to lift the lid a bit more to explain what underpins our confidence in this business.

We've broad based exposure to the Beauty markets, predominantly weighted to skin and we are well positioned in high-growth niches. We've also got balanced geographic reach. We've been growing ahead of the market in four out of the five of the biggest Beauty Care markets globally, France, Brazil, China and India with the USA being the exception. That's evidence of our strategy delivering. It's all about increasing R&D intensity in these countries. Most regions have held up pretty well this year and a step change in the US will undoubtedly help drive the recovery.

Two other important points. 62% of our ingredients are bio-based, significantly ahead of our peers, with their biodegradability and lower-carbon footprint providing additional sustainability claims. With demand from our customers strongest for sustainable ingredients, we are very well positioned. And 80% of the portfolio is differentiated, that means superior prices and profit margins and far lower churn.

And our strategy is to strengthen our position in each of these four areas, accelerating our differentiation through innovation. Our strategy will support growth in all regions, but especially in those parts of the world where the opportunity is greatest. That includes Asia where we have continued to invest in our portfolio with the acquisition of Solus Biotech, in innovation with a new R&D facility in Shanghai, and in manufacturing with a new surfactants plant in Dahej, India, due to open in 2025.

With the USA key to our recovery, our refreshed leadership team is working hard to win back business that we lost with an increased focus on innovation. We will extend our sustainability leadership by transitioning our manufacturing processes to biotech and other low carbon technologies, and by providing customers with Product Carbon Footprint data so they can see the emissions savings they are making by using our ingredients.

We have embedded R&D resource in Consumer Care to drive innovation faster and expand the differentiated part of the portfolio. And at the less differentiated end, we have applied a volume KPI to ensure that we manage volumes in a more focused way.

Coming on to Crop.On the left you can see how inventory levels at all our major customers are still well above pre-covid levels in yellow. 2022, in red, was an especially strong year for Crop as inventory levels grew and as you can see from the green line, they remain high. So, we expect destocking to continue for a while yet.

This is something that we will just have to be patient about, it has no bearing on the huge opportunities that we continue to see in this area. Our technology is helping customers to make their existing formulations more sustainable, to transition to biopesticides, to improve yields through crop nutrition and to adopt innovative approaches such as precision agriculture. Again, Croda is leading the way. We recently launched our first delivery system especially designed for biopesticides, which has secured sales in all key regions, and a new product that meets the growing demand for drone delivery particularly in Asia.

Pharma continues to be the most exciting aspect of our future growth story. The rapid growth that we are seeing in biopharma and bioprocessing supports that. Protein and Small Molecule Delivery provides delivery systems for both the more mature small molecule drugs and the higher growth protein and monoclonal antibody applications. We are also moving into bioprocessing which is integral to production of therapeutic proteins and vaccines. The number of qualified commercial opportunities grew by more than 60% in 2023.

We originally presented the graphic bottom left at our CMD in October 2022. We are making great progress bringing our new pharma innovation to market – lots of technologies that will make an important contribution to our sales and profit performance from this year.

Top right, our pipeline includes a best-in-class solution for cell health manufactured using a new process based on Croda's unique refining technology that we are bringing on-stream in 2024. The disruptive solution will be launched in the coming months and will contribute incremental sales from 2025.

We have also expanded into bioprocessing aids, a target adjacency, launching Virodex as an aid for biopharma manufacturing. The first sales were secured within three months of launch and we expect them to ramp up considerably.

Turning to Adjuvant Systems. The development of novel therapeutic vaccines that cure diseases previously only treatable for their symptoms is creating a huge need for new adjuvant systems. As a result, the number of projects in our commercial pipeline has grown by 24% in 2023. And Croda's innovation is helping to unlock therapeutic vaccines, examples of which are here on the right. PHAD, a novel lipid-based adjuvant, was pre-launched in 2023. It's been really well received with samples into more than 20 candidate vaccines and about £10m of sales anticipated this year growing to well over £20m thereafter.

Turing to the bottom right, many current generation vaccines use squalene adjuvants that are derived from shark's liver. Our squalene adjuvant is a sustainable technology that is currently being tested by 3 vaccine companies with initial sales coming through this year.

And finally Nucleic Acid. Our growth here will be driven by the commercialisation of new nucleic acid drugs with the number in development continuing to grow. We've seen a 28% increase in the number of projects in our pipeline this year.

The strong medium-term growth trajectory for our Nucleic Acid Delivery platform is likely to be realised in three phases. Firstly, mRNA vaccines for infectious diseases which are expected to come to the market from 2025. Secondly, oncology applications which require more targeted delivery systems. And thirdly, gene editing therapies such as a CRISPR treatment for sickle cell anaemia which we are supporting – the first gene editing therapy to be approved by the US FDA.

Alongside all this great innovation, we are making significant improvements to the way that we work. There are many examples across Croda of how we are using data analytics and AI to drive operational improvements. One of these is a refreshed operational dashboard, illustrated bottom left, providing all the key metrics to leaders in one app.

The graphic on the right-hand side shows our new organisation that has been in place since the 1st of January. All regional teams, including sales, R&D, marketing, customer service and manufacturing now report directly into the sectors. This structure will ensure we deliver faster and more effectively for our customers.

Turning now to our outlook for the year ahead. The ongoing uncertainty makes it hard to predict what will happen in each of our businesses. Overall, we expect to deliver mid to high

single digit percentage sales growth in 2024, excluding the $60m of Covid-19 lipid sales in 2023, with higher sales volumes more than offsetting lower price/mix.

Consumer Care has started the year well and we are cautiously optimistic given the improving demand trends we have seen so far. In Life Sciences, we expect the non-Covid Pharma business to continue growing but destocking to continue in Crop and demand to remain weak in Industrials.

Moving to the right-hand side of this slide, we expect 2024 Group operating margin to be two to three percentage points lower than 2023. Four reasons for this. Business mix with no contribution from Covid-19 lipids this year and continued strong growth in F&F. Lower overhead recovery at our manufacturing sites due to continued low sales volumes in Crop and Industrials both of which have high production volumes, alongside Beauty Care. A reset in our cost base back to a more normal level, from a low point in 2023. And finally, ongoing investment in our strategy.

Based on these assumptions and at current exchange rates, we expect Group adjusted profit before tax to be between £260m and £300m in 2024. We plan to report sales performance quarterly this year, with a Q1 update on 24 April.

Finishing on the key takeaways. 2023 was a challenging twelve months for Croda and the wider industry but the technology trends that will drive our future growth haven't changed and we've continued to invest through the downturn – we will see the benefits of that in the years to come. We are focused on executing our strategy, innovating and investing for the future with a clear set of priorities that will drive our near-term performance. Croda is very well positioned for the macro recovery when it comes. Louisa and I are now happy to take your questions.

**Gunther Zechman, Bernstein**
Good morning. Steve, can I just ask about the volume assumptions you make for 2024, please? You're guiding for mid to high-single-digit sales growth. Is that organic?

And then you're saying negative price mix. I assume mix positive but looking for you to confirm that, so price incrementally more negative, but Q1 raw material costs being down only 2% and then stabilising, so should we interrupt that as price givebacks or concessions, especially in Beauty Care, to recover market share? And how long do you think that will take, i.e., what's the volume price elasticity you expect in that business, and what are the other drivers for volume, please, in 2024?

**Steve Foots, Group Chief Executive**
Yeah, a few questions in there, Gunther. Yeah, well, we'll do this together. I mean, the way to look at the revenue for next year first and then we'll get into the volume prices. I'm cautiously optimistic on Consumer Care across the board. You know, you've seen others out with cautious optimism. I think our optimism is around, you know, across-the-board growth in the early part of the year. The order intake looking healthy towards the end of February and, importantly, Beauty Care coming back and, importantly, within Beauty Care, North America coming back within Beauty Care. So, we're seeing that. And that's volume-led, you know, inevitability this year.

So, I think the cautionary optimism, the cautionary part of that message is, you know, we can't be sure yet whether this is a mini bounce back because of aggressive destocking at the end of last year. You know, we'll know more - the golden rule in Croda with me is April, we'll know more once we get into April, we see quarter one figures, and then we can see the start of quarter two.

And a bit like this time last year where saw the reverse of that, I think we'll have a better understanding whether this is a really strong trend for the year ahead or whether this is more just a mini bounce back. So, we're cautious on that side, but, you know, confidence building in the camp in Consumer globally.

In the Life Science business, I think you can see underlying Pharma continuing to grow. You know, we've got momentum there, underlying the Seed business is growing as well. So, the issue that we've got there is Crop, and we expect some modest volume recovery in Crop but we're quite cautious on Crop until we actually see it coming back.

So, our model is very much of not breakout growth in Crop yet through the year. We'll see that when it comes and, you know, given that we're in quarterly updates with you, we can guide everybody through that. And Industrial still weak as well. But I think I'll pass to Louisa just to give you a bit more colour on the volume and the price as well.

**Louisa Burdett, Chief Financial Officer**
Yeah, the only thing I would add is Steve's talked about the Consumer Care, Beauty Care part of the growth rate. We are expecting Fragrances & Flavours to continue to deliver a strong growth in Consumer Care, in the mid-teens. And, whilst it's small, Home Care will be in a similar growth rate. And Steve's already addressed the Beauty Care piece around sales growth of high single digits with higher volume growth offsetting price mix negative.

Just on that point, the datapoints for Beauty Care we're more cautiously optimistic about. We'll come to Crop in a minute. As Steve said, you know, we've got our January performance, was above the average of our quarter four performance. We're seeing a relatively strong orderbook and, as Steve said, we've got, broad geographic growth pleasingly in North America. So, they're the shapes within Beauty Care and, as Steve's already said, Crop is the one where we're slightly more cautious.

But just to take the price piece, look, the tail of those three big businesses – Beauty Care, Crop and IS – are subject to a bit of price pressure at the edge but, as you've picked up, our raw material prices are declining at a similar rate in the first quarter of this year to what we saw through last year. So, we think, with some moderation in Q3, which is what we're predicting, the margins should handle this but, you know, clearly, the Crop piece is where we're, you know, most cautious because we did have some very, very strong price up in 2022, so that's where the outlook is positioned.

**Steve Foots, Group Chief Executive**
Yeah, and I think, just a point on the raw material position as well, because we're down about 2% or 3% in quarter one, but we're coming off a year of 12% raw material reduction, so there's a quite a lot of flexibility in there to obviously go after, you know, with flexibility of pricing, with margin stability, to go in and obviously go after some business.

So, when I look at the gross margin for Croda, and don't forget our gross margin is different to yours, it's the raw material in the pack, you know, as a percentage of the sales price, our gross margins are holding up very well generally across the board, with the exception of a bit of weakness in Beauty Care, which is twofold, which is mix effect and also a little bit of price at the bottom regarding business.

So, when we look at the gross margin that we see we're actually quite pleased with where we are given this big inflationary and potentially deflationary environment and, you know, we always look at that very closely.

So, I think, you know, it's a volume-led revenue growth this year for the industry, not just for Croda. We're confident of that, certainly from a Consumer Care point of view. I think the thing

that we want to watch, like you, is, to get us fully charged and back to where we normally are it's the Industrial portfolio coming back and the Crop volumes coming back, and, once they start to come back, you know, we'll be where we want to be.

**Louisa Burdett, Chief Financial Officer**
And just to finish that up, in previous outings, we have been clear that, particularly in the US where we disappointed customers through the back end of 2022 because of just being oversubscribed on our plants, that we are having to give away some tactical price to get some of that volume back. So, again, you'll see a little bit of that on the edges, but I don't think that's any surprise compared to what we've said before.

**Gunther Zechman, Bernstein**
And that tactical pricing, is that a 2024 effect or do you expect for that to extend into '25 to reach an acceptable level of capacity utilisation in your plants?

**Steve Foots, Group Chief Executive**
I mean, in respect of Consumer Care, it's in the '24 numbers, but it's only a small part. The most important thing in North America is the market. We've had this shrinkflation for about 18 months. It feels like the market's starting to come back and, when it comes back for Croda, two of our most profitable plants in the world are in North America.

So, if the core business ramps up, then we'll be in a good place. So, the tactical opportunities around the edges rather than the main part of that, but certainly there's some of that in the numbers for next year baked into that, yeah. Sebastian?

**Sebastian Bray, Berenberg**
Thank you for taking my questions. I have three, please. Why did Pharma growth moderate in 2023, excluding COVID? And would you expect this to continue in 2024? Perhaps another way of putting this question is what would you expect to be growing more quickly – the Pharma or the Consumer business – in 2024?

My second question is on Crop Protection in January. And, Steve, you've shared some comments around how Consumer Care has been developing over the months. How has Crop Protection been holding up relative to expectations?

And the third one is more philosophical. Assuming that volumes come back, what do you view as an achievable long-term operating margin for the business? Thank you.

**Steve Foots, Group Chief Executive**
Well, we'll both chip in. I mean, on the Pharma growth, what you've seen in '23 is Consumer Health a bit like the Beauty Care, you know – you've seen this destocking period as well. So, yeah, we would expect that to come back probably well, and that's something we'll monitor as we go along.

But underlying Pharma growth this year is probably, you know, we've got budgeted around high single digits in our model, and we'll see how that develops. That's ex-COVID.

Now, a lot depends on – you know, we're not forecasting some of this potential new revenue that might come on top of that with the clinical programmes and we shouldn't do that because it's still difficult to predict, but, as every month goes by in Pharma, the pipeline opportunities are getting really interesting. We're probably in now with lipids with the six major pharma players, we have commercial relationships with all of them now, and that's great. Now, how that manifests itself in commercialisation we'll see, but, you know, we are in the majority. Anybody that's stabilising mRNA, we're in the majority of them, so that's great.

So, I think Pharma it's fine. Difficult to predict whether Consumer Health's going to grow quicker than Pharma. I don't think we're budgeting for one much bigger than the other. We'll say that, but, I mean, let's stop there. Anything on Pharma, Louisa, then we'll go on to Crop?

**Louisa Burdett, Chief Financial Officer**
Yeah, 2023, I agree with the Consumer piece. We had a bit of ancillary adjuvant business that was weak with the COVID piece declining as well. So, they were the two drivers, and agree with Steve on Pharma for '24.

I mean, the real pleasing thing about Pharma for '24 is that we've swallowed this lumpy bonus of COVID-19 business, which has been fantastic for us, but the two engines of growth are as Steve's shown in his slide and he's just said that a lot of that, sort of, lipid piece is now sort of built into the core underlying DNA of the Avanti business that's now owned by Croda. So, that's an engine of growth.

But also, the other bit which we haven't drawn out well enough, is the Solus Biotech acquisition. We've talked about phospholipids, which actually have been quite a nice read-across into lipid delivery systems in Pharma. So, that's another area where we're hoping to see some growth.

**Steve Foots, Group Chief Executive**
So, Crop, I mean, trying to decode that slide on the left I think each of the regions will probably come back at slightly different points. We think Latin America, for Croda, will come back probably first. They're the nearest to replenishing. Then America, then Asia, then Europe. And, you know, whether that period is two or three months for all it to come back, we simply don't know yet. But Europe is the one that we're watching at the other end because they look like they're sitting on a bit more stock than most of the other players.

So, it is what it is. I mean, we'll innovate in the normal way, like we normally do. We're number one player in Crop as well in our space. So, we're in a lot of registered products, so I think we have to just monitor this and see it coming through.

The important thing for Croda right now and the thing that's probably on my mind more than anything else is capacity utilisation in a proactive way. It's making sure that, when the volumes come back, it doesn't need a huge amount of volume to come back in Crop and Industrial through this period. Once it comes back, we'll feel it, and we have to be ready for that because Beauty Care's coming back. So, we've got to make sure that our 11 multipurpose sites are focused on capturing that demand, and they will do.

So, we can't give you any better information than that, but I think it'll be a regional recovery that we should watch in Crop. And I think, on the multinationals, the nearest ones, you can probably work it out from the slide, are Bayer and Syngenta. They're not far away from replenishing in our book, so they'll probably come first, so we'll watch those. Louisa, anything?

**Louisa Burdett, Chief Financial Officer**
Nothing else to add, no.

**Steve Foots, Group Chief Executive**
And then your question on operating margin, I mean what we've seen, the two unusual things that we've seen is we an operating volume level issue, which Croda's never talked about. In 30 years, I've never seen it in the boardroom or the exec where you've got Beauty Care, Industrial and Crop indiscriminately down together, and that's very unusual. So, clearly, the speed at which all of those come back will determine how quickly we get back to our what I call normal.

And the other thing is a very usual mix effect, you know, in both businesses. We've had a massive COVID effect, which is, as Louisa said, probably the proudest thing I've seen in Croda. We've served the biggest medical need of the generation, that's involved four ingredients from Croda to solve that need through our innovation. That's brilliant, but obviously we see the normalisation effect of that, and that's quite significant on the downside to mix. So, we've had that, and we've obviously had an unusual mix effect with Beauty Care down and F&F well ahead. So, you've had a sort of mix effect there.

So, I think mix will settle down, volumes effectively rebased we think, and then the question is the speed of that coming back. But our targets of a guidance around, you know, 25% in Consumer and 30% in Life Science plus still hold. The speed at which we get back will be something that we have manage with you and guide with you. But the portfolio has got great strength in it. It's got much more strength than it had three, four, five years ago.

And, if you remember, a few years we ago we were sitting around here, the challenge was always consistent revenue growth from Croda. I don't doubt we've got consistent revenue growth in the portfolio for the next few years.

The job for Croda, as it always is, is we like revenue growth but we much prefer profit growth. So, in the next few years, it'll be to drive the profit growth from the portfolio, and we'll do that very well. We're very well-conditioned with that.

So, I can't give you an answer to that, but our guidance remains unchanged, but the speed at which we get there will be something we have to think about with you all, and we'll manage that with you. But that the was operating margin point.

**Louisa Burdett, Chief Financial Officer**
Not much to add. I mean, the only thing, maybe one caution and just one reinforcement, you know, clearly, we're delighted with the F&F sales growth in those mid-teens, and it's been a really good performer for us if it stays at those sorts of levels, and Beauty Care is slightly below that, then that, might challenge some of that 25% aspiration for Consumer Care, but, you know, we'll watch that as we go.

And then, just to re-emphasise on the positive point, there's so much excitement on the Pharma piece that that 30% looks pretty exciting.

**Charles Bentley, Jefferies**
Thanks. So, can I just follow up on that margin point? So, I guess the basic guide for '24 implies something 16%, 17% operating margins, and that's getting you looks like somewhere halfway back to kind of volume recovery. So, if I assume the full recovery may be getting back to approaching 20 there's still quite a big gap between that kind of 20% and 25%. So, the first question is just like what really are those levers?

Second question is basically, if I look at that bridge that you put up in terms of the headwinds from the '23 base, it was the price mix, it was the incremental cost and then continued investment. Can you just elaborate the continued investment, like the payoff on some of these investments, where they're being focused, just a bit more granularity?

And then the final question is the £8m of cost savings for accountability that you're saying will come in 2025, just explain the basis behind that, what was going wrong, what's being fixed, where it's kind of centred and structured? That would be helpful. Thank you.

**Louisa Burdett, Chief Financial Officer**
Why don't I take the first two?

**Steve Foots, Group Chief Executive**
Yeah.

**Louisa Burdett, Chief Financial Officer**
I'll give the facts on the restructuring and then you can talk about the more philosophical points.

**Steve Foots, Group Chief Executive**
Yeah, and I'll talk about the organisation, yeah.

**Louisa Burdett, Chief Financial Officer**
So, on the leverage point, you know, we've talked about a 5% decline in operating margin this year due to leverage. And, in the guidance for next year, we're talking about high-single-digit sales growth driving between 2% and 3% of upside leverage depending on where you interpret mid to high-single-digit growth at the group level.

The reason we are not sort of bouncing that right back to your push is because we've still got this strong growth in F&F which doesn't really have a huge impact on the shared manufacturing plants that Steve has talked about – that's number one.

And then the second one is that IS is still weak, which is an important baseload for some of those plants. And Crop, again, I think you're picking up that we're still sort of cautious about the pace at which that volume comes back. You know, we're not going to be leaping back to full capacity there.

So, we've deliberately tried to structure the guidance, which gives you almost like the cost headwinds, and then the assumptions around the market. So, if you are more bullish about the market growth than we are, then, you know, potentially, there's that multiple. But we're hopefully giving you that optionality.

On the three drivers, just bringing it back to guidance, we're saying 2% to 3% leverage from sales growth and five points of headwind from those three items that Steve put in the guidance, which gives you that 2% to 3% decline in operating margin year to year.

The three elements are broadly COVID-19 and Fragrances & Flavours stronger growth. That's about two percentage points of that headwind. You know, you can see the numbers for COVID and you know the F&F mix is probably around 0.5 percentage point, with COVID being 1.5 percentage points of that lump.

The second piece is the bounce-back costs. The most material item is that £25m, so the £25m with some production costs coming back on a rebased '23 sales line is another 2% headwind.

And then to your point, the bits that we put in the investment for growth are largely deprecation. And the main pieces there are the, well - I hope, well-rehearsed Pharma investment to support the capacity for lipids. We've also got a new manufacturing facility in India, eco-based, and some Beauty Actives and F&F investment going into China. So, you can see they're all macro-driven. And the last thing in there is, as I said, just continuing to make sure that our people are paid well, want to stay with us and, you know, happy employees.

And then the last one, on our restructuring – I'll just give you the facts and Steve can talk about the philosophy – we are talking about £8m annualised savings from 2025. We've baked in £5m of savings this year. It's netted out in some of those grey boxes that I had on Slide 20. So, modest but this was never about cost savings.

**Steve Foots, Group Chief Executive**
Yeah, and just on the organisation, I mean, the organisation change is not a reason for doing it. It's not because of the trading issue, it's because of a portfolio change in the organisation. We've got Industrial and it's moved largely out. And we've got a lot of fast growth, quite dynamic portfolio companies in there now from Iberchem to Avanti.

And what we found was – I would have done this before had we not had the Equus separation. Project Equus is our internal name for the industrial separation. Don't quote me on why it was called Equus but, you know, we would have done it around the time, but that was quite a complex change, and we didn't want a layer on top another change.

Well, what have we changed? The Executive Committee, we had Regional Delivery Presidents and we had Sectors Presidents. The Sector Presidents were largely really accountable for year two to year five-plus growth, mainly principally strategy and innovation, and the delivery teams were mainly involved budget, in-year budget.

What we found with all of these moving parts coming in, it's much better if we can put them all under the sectors, in P&L, and then we have a very regional P&L structure in Consumer. In America, to Asia, to Europe, it's different in Consumer. So, we have P&L owners in there that report up into the Sector Presidents.

And also, on one side of their organisation chart, they have all the strategy as well. So, they're responsible for strategy delivery, the creation, the development of innovation, and they're absolutely 100% committed to the delivery and performance in the P&L.

Three reasons for doing it really – one is to get close to customers in an absolute intense way and responsive way. The second thing is to drive accountability down the organisation and making it easier for the organisation to work within. So, it's a much simpler organisational structure in that respect.

Now, I know what you all say, organisation structure doesn't change performance, and you're right. Behaviour does, behaviour changes performance. So, what we're driving through is this behaviour change that we want just to get quicker decisions in the organisation away from the Exec Committee down the company and getting us brilliant in front of customers, even more brilliant than we are today. And you can see with the NPS scores, you know, customers want to buy from us. They're going in the right direction. But the big jump has been in America in the last six months.

So, I think the philosophy is I don't make big organisational change very regularly, but this one I just felt, for the pace of growth in the portfolio, in the organisation now, we need this to help us really drive that benefit through the company. So, you know, we'll update you on that through the year. Charles?

**Charles Eden, UBS**
Hi. Thank you. Can I just ask, on the guidance, did the learnings from 2023, and I guess, sort of, resetting market expectations as we went through '23, play a role in your guidance for '24 because I guess, at the midpoint, you're assuming, sort of, no recovery, ex lipids?

And I understand the costs points, Louisa, that you ran us through kindly, but I guess, on a high-single-digit volume leverage, to not increase profit year over year on an underlying basis on high-single-digit volume growth probably isn't something that you would envisage, so, sort of, a question in terms of if there is a degree of prudence because of 2023 and that guide.

And then, Louisa, just a specific one for you on working capital. You mentioned the debtor to do with COVID lipids, but that aside, is there still scope for further working capital release in '24? Thank you.

**Steve Foots, Group Chief Executive**
Yeah. I mean, just on the overall point, you know, we've come through a very difficult period, for the industry as well, very unusual period, very volatile as well, and, you know, it had us all scratching our heads and trying to predict what happened, trying to reflect on it and better understand what the near-term forecast. And, when your customers don't really know as well what their forecast accuracy is, you know – their forecast accuracy is probably as good as ours, if not a bit worse actually, they don't know from one month to the next – you know, we're quite rightful to be cautious, I think, as we go into this year.

I think we can all take a judgement and I think you're all probably in slightly different places as to when we're going to see an inflection, but I think we've taken the view if we can't see it, well, let's not try and give you an answer because, one, we don't have the data for it.

And I think we're quite scientific in Croda, well a lot of people are, but the point we try and make is, you know, if we can see three months of data then we would call that a trend. I think that's fair to say. And, if we don't see it, then we won't call it.

So, yeah, I think we're rightfully cautious but we're cautiously optimistic on Consumer, we're cautious on the Industrial business and the Crop business. And I think, you know, we're right to be given the datapoints that we've got just today.

**Louisa Burdett, Chief Financial Officer**
On working capital, the debtor unwinds in January from Q1, so that gives us a nice boost going into '24. And our guidance on the technical slide was that, I mean, obviously it depends on recovery and whether we're needing to build stock, but, at the moment, our working assumption is that we should be neutral to potentially a slight positive on working capital inflow.

**Steve Foots, Group Chief Executive**
Right, Nicola.

**Nicola Tang, BNP Paribas**
Hello. Thanks for taking the question. I just wanted to ask a little bit on the F&F side. You know, we've talked a lot about this continued strength in the business. Could you explain a little bit what's driving that? Is that your synergies coming through? Do you think you're taking share? And can you help me reconcile a bit with the weak performance in Beauty Care because, ultimately, I would have thought that, you know, the volume drivers should be the same in terms of some of the end markets that you're trying to hit there?

And then, I guess linked, can you help me reconcile the different in performance between Beauty Actives and Beauty Care in terms of volumes? Thank you.

**Steve Foots, Group Chief Executive**
Right. Okay. I mean, on F&F, first the growth has been consistent with our plan. Don't forget they're in emerging markets, so we expect the emerging market growth to be bigger than Europe and North America. But I think it's a great model and it's a very fast, responsive model, and they're gaining market share broadly everywhere where they are.

I think the Croda involvement has always been to open doors for the Iberchem team to walk into. You know, we've got 7,000 customers in Beauty Care, and most of those customers will buy a fragrance, and most of those fragrances are not bought from Iberchem or Parfex. So, the opportunity for the Croda sales team to open the door and get the Iberchem team in, you

know, to develop business is significant and when you do the maths on that you don't need too many of those customers to convert and you get bigger growth.

So, I think there's that, but I think also we can invest more with them as well. You know, they were private equity model-backed, so we've been investing with them in Brazil, we're now in China investing in new facilities. So, we can get them to growth quicker as well with investment and it's a good model and it's a good team.

It's a very young team as well. The average age in that team is about 37 so it's a sign of a growth business as well I say. 17 different nationalities in the Senior Team as well. So, we're really pleased with the performance.

I think your point about how you compare that to Beauty Care and the volume dynamics, I mean, the big difference is it's been agnostic, it's largely agnostic to stocking, destocking cycles, and the main reason is they supply really family businesses. Most of their customers are small customers, virtually all of them. They don't have much exposure to the big multinationals. And, actually, if you look in Beauty Care, the majority of the volume weakness is because of the multinationals, it's mainly around about eight to ten customers.

So, if you're supplying in this environment to big multinationals, you find that multinationals are not as good at managing inventory as the really small companies. So, I think, you've got that. And then also, you know, they're so spread with their customer mix as well. You know, their top ten customers are nowhere near the intensity of, you know, Croda, or certainly nowhere near an intensity of the F&F major players as well.

So, I think it's just different. It's in emerging markets as well, which are faster growing. So, I think you've got that broad distinction there. And your final question, Nicola, was what?

**Nicola Tang, BNP Paribas**
Actives versus Beauty Care.

**Steve Foots, Group Chief Executive**
Yeah. On revenue, we see that Actives was broadly flat for the year and Beauty Care was down, what did we say, 11% through '23, and F&F up 18% and Home Care broadly flat. So, you know, coming out of the year, in the year we've had with revenue down just over 1%, 1.5% down, you know, it's not a bad result. It's a resilient revenue line. Obviously, you know, all eyes on profit improvement now, which is the most important thing for us.

**David Bishop, Director of Investor Relations**
A couple of questions from the webcast. The first one I am combining questions here from Chetan Udeshi at JP Morgan and Isha Sharma at Stifel. So, Chetan says, with volumes up 9% in 2H '23 in Consumer Care, can you help me understand why the second half EBIT was down so much?

And, looking forward, Isha has a similar question. Can we expect the volume leverage to translate fully at Consumer Care only after we see an improvement in Crop Protection?

**Louisa Burdett, Chief Financial Officer**
David, sorry, can you repeat the second question?

**David Bishop, Director of Investor Relations**
Does the volume leverage in Consumer Care only come after we see an improvement in Crop Protection?

**Steve Foots, Group Chief Executive**
Do you want to kick off?

**Louisa Burdett, Chief Financial Officer**
So, volume's up 9% in Consumer Care in the second half. We did see volumes up in Beauty Care in the second half but not as high as 9% because, clearly, that volume metric is influenced by the strong performance in F&F, which has been a common theme throughout our commentary and would be the main reason why that drop-through to EBIT is slightly weaker than if it was all driven by the higher profitability in the Beauty Care portfolio.

I can only answer this question, second question directionally. So, within our guidance and back to the challenge that we've had about negative 5% on leverage on the way do and only 2% to 3% on the way up, we have factored in, to the best of our ability, the visibility that we have on the relative recovery rates in Consumer Care, which we think will be earlier than Crop.

So, I don't really know whether the answer to that, is probably something in the middle, but it's not binary. We're just going to have to see how the plants fill up through the year.

**Steve Foots, Group Chief Executive**
Okay.

**David Bishop, Director of Investor Relations**
The second question comes from Charlie Huggins, and he says, why is variable comp going to be higher in 2024 when the Group profit is likely to be lower?

**Steve Foots, Group Chief Executive**
Yeah. I mean, it's the right question. So everybody's in the same bonus scheme in Croda, it's on, you know, profit growth in the organisation, and it's on underlying profit growth.

So, what we've always done, over the last three years, is exclude the COVID lipid significant contract for that, both on the upside and the downside because what we don't want, if you've got 6,000 people in the organisation, we don't want the majority to benefit on it if it goes up and get turned off driving the right behaviour in profit growth in the organisation. And, equally, on the way down, we don't want them to be disincentivised from 2nd January when they turn up because they know that that's a big profit, you know, a negative profit headwind. So, we've always chosen to do to that, and you've seen that in disclosures in the last three years.

So, actually, it looks like we're bonusing on profit moving backwards. We're bonusing on the underlying business going forward. We would never want to bonus on anything else. So, the underlying profit growth has to, you know, be challenging to allow that to happen. So, that's the broad background. It's mainly to do with that main contract being excluded.

**Louisa Burdett, Chief Financial Officer**
Yeah, and just to add to this, I mean, you'll get to the simple maths, but, if you look at £310m delivery this year, take the COVID off, you're at the midpoint of the range.

Absolutely, categorically, as Steve said, the Board and RemCo do not approve a bonus if we are not showing, you know, hitting at least the last year's growth. So, it's that sort of maths. There are some other bits and pieces that get adjusted, as in normal bonus schemes, but to reassure everyone we're not paying for going backwards.

**Steve Foots, Group Chief Executive**
Yeah. Sebastian?

**Sebastian Satz, Citi**
Yeah. I was just intrigued by the 20% of your Consumer portfolio, which was less differentiated. I was just wondering whether there's an opportunity to do what you've done in the past and to potentially de-emphasise this, and to what extent does it feature in your, kind of, mid-term growth and margin targets?

**Steve Foots, Group Chief Executive**
I mean, it's a good point. We've done a lot of work on that, so that's not just a number thrown up. We've done a lot of predictive work on churn rates, margins, average selling prices, order patterns. So, it's about, you know, there's about £80m or £90m, but it's still profitable.

So, I wouldn't call it a tail in Beauty Care. The margins in there are still healthy margins and deserve a place on the plants. I think the point we try and make is, we want to manage that more closely from a volume point of view – if there's one learning from the last year it's the volume elements of that, there's a similar, well a smaller amount in Crop and there's some Industrial Specialty as well, and there's a volume emphasis across all of them, which is relatively small in total but we need to watch the volumes from the factory.

So, we don't want to grow the business, but we want to try and maintain it while we fast grow everything else. So, the innovation focus is in the 80% rather than that.

And I think just a bit more basic stuff, a bit more flexible pricing in that when we need it, making sure we keep ourselves whole across the contractual discussions that we have. I think it's just good business practice and we can monitor that as we go forward as well more closely if you like. But, you know, yeah, it is 20% and it's something that we just want to monitor as well.

Anything else? Okay. Well, look, thanks very much. Nice to see you in person, everybody, and I'm sure you'll be going off to your next one, but thanks again for your questions. Cheers now. Bye.

**Louisa Burdett, Chief Financial Officer**
Thank you very much.

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