

Croda International Plc

# 2023 half year results

25 July 2023



# Disclaimer

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## Cautionary statement

This review is intended to focus on matters which are relevant to the interests of shareholders in the Company. The purpose of the review is to assist shareholders in assessing the strategies adopted and performance delivered by the Company and the potential for those strategies to succeed. It should not be relied upon by any other party or for any other purpose. Forward looking statements are made in good faith, based on a number of assumptions concerning future events and information available to the Directors at the time of their approval of this report. These forward looking statements should be treated with caution due to the inherent uncertainties underlying such forward looking information. The user of this review should not rely unduly on these forward looking statements, which are not a guarantee of performance and which are subject to a number of uncertainties and other facts, many of which are outside the Company's control and could cause actual events to differ materially from those in these statements. No guarantee can be given of future results, levels of activity, performance or achievements.

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## Market information

Market sizes and growth rates are company estimates informed by a range of third party sources.

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## Alternative Performance Measures (APMs)

We use a number of APMs to assist in presenting information in this statement in an easily analysable and comparable form. We use such measures consistently at the half year and full year, and reconcile them as appropriate. Whilst the Board believes the APMs used provide a meaningful basis upon which to analyse the Group's financial performance and position, which is helpful to the reader, it notes that APMs have certain limitations, including the exclusion of significant recurring items, and may not be directly comparable with similarly titled measures presented by other companies. The measures used in this presentation are defined in Croda's H1 results statement for the period ended 30 June 2023.

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## Pro forma estimates

Pro forma H122 estimated results have been adjusted for the divestment of the majority of Performance Technologies and Industrial Specialities (PTIC) on 30 June 2022.

# Agenda

01. CEO overview
02. Finance review
03. Strategic progress
04. Questions





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# 01 Overview

**Steve Foots**

Chief Executive Officer



# Performance in line with revised expectations

## Headlines

- Destocking across consumer, crop and industrial markets
- Lower volume impacting margin; temporary cost measures to protect profitability
- Flat sales in Consumer Care; sequential volume improvement
- 8% sales growth in Life Sciences excluding \$62m prior period Covid-19 lipids
- Improved free cash flow
- Interim dividend maintained at 47p reflecting confidence in future performance

## Continued investment

- R&D investment; Asia focus
- Scaling Pharma capacity
- Completed Solus Biotech acquisition
- 'Doing the basics brilliantly' programme continuing to drive efficiencies



# Resilient sales in Consumer Care and Life Sciences



## Consumer Care

### Market context

Rapid post Covid-19 stocking and destocking unprecedented in speed and scale.  
Customers reducing ingredient inventories in most regions.

### Sector performance

- Flat sales supported by price/mix and FX
- H123 volume improved versus H222
- 20% sales growth in F&F; driving synergies and Croda-enabled growth
- Continued shift to sustainable ingredients



## Life Sciences

### Market context

Rapid crop customer destocking in Q2; some improvement likely in Q4 season.  
Limited impact to date on Croda from pharma funding squeeze and destocking.

### Sector performance

- Good sales growth in Seed Enhancement and Pharma, ex prior period CV-19 lipids
- Destocking in Crop Protection in Q2 following good Q1 & outstanding 2022
- Supporting >50% nucleic acid drugs
- Covid-19 lipid sales due in Q4

## Industrial Specialties

### Market context

More pronounced destocking than crop.  
Weak industrial demand globally.

### Sector performance

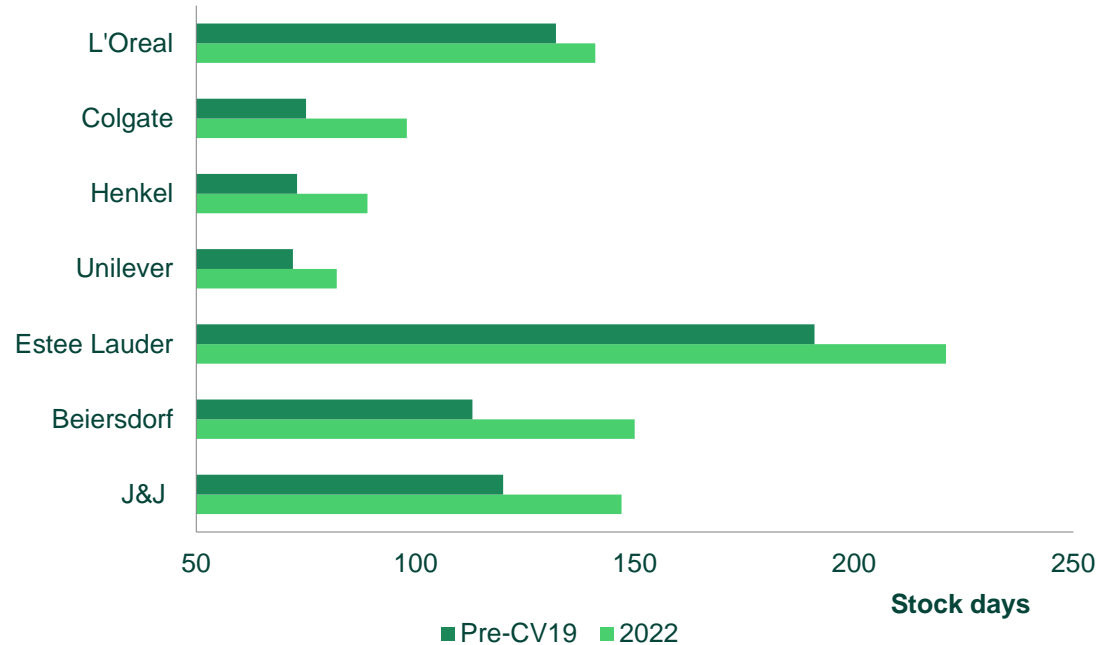
- Majority of industrials business divested
- Sales down 20% after adjusting for the divestment
- Profit reduction compounded by negative operating leverage

% of nucleic acid drugs in clinical programmes that specify a lipid delivery system. Industrial Specialties is not a priority for capital allocation and strategic growth.

# Consumer Care improving despite prolonged destocking

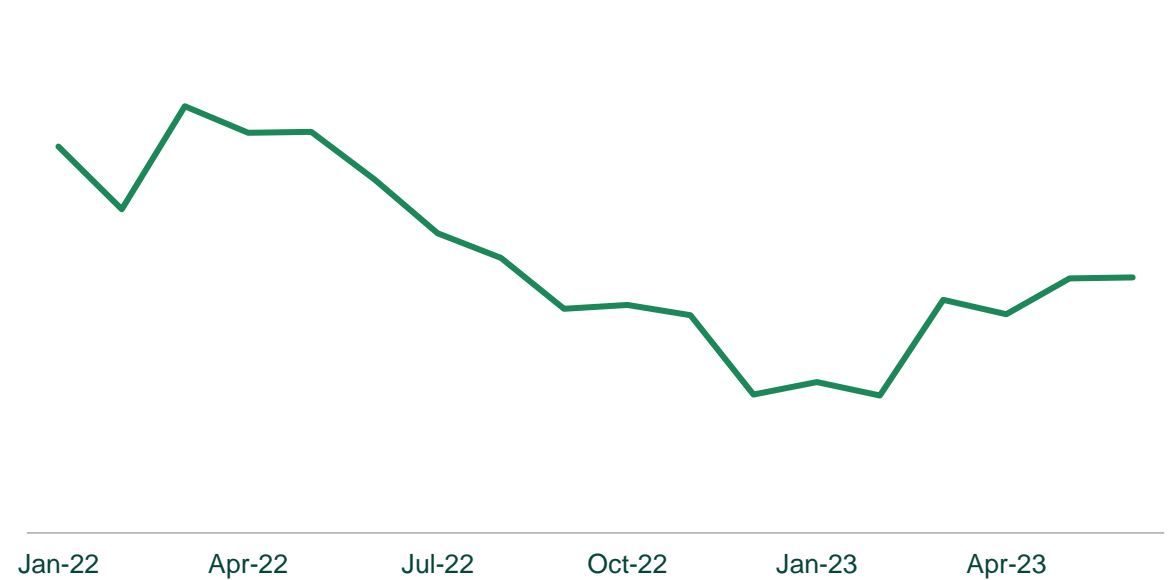
## Significant inventory correction

Customer 31 Dec 22 inventories higher than before Covid-19 (stock days)\*



## Sequential improvement in Consumer Care

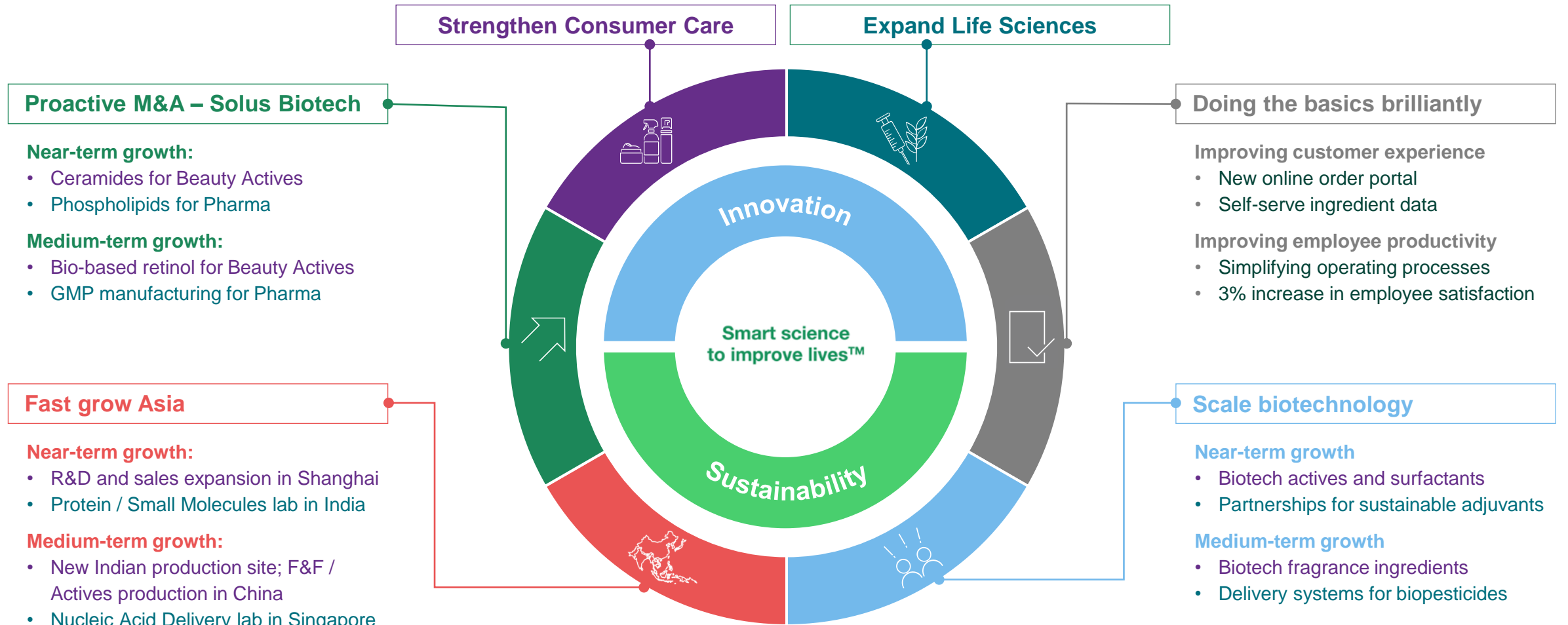
Consumer Care volumes (3-month moving average)



**40% new and protected products as % of total Consumer Care sales (H122: 40%) – continued demand for innovative ingredients**

\*Customer inventory data compiled by Croda from public company reports. Estee Lauder stock days exclude promotional merchandise. Pre Covid-19 is average 2017 to 2019.

# Investing in strategic priorities for near and medium-term growth



Purpose and Sustainability Commitment KPI rose 3% to 63% in recent all-employee survey.



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## 02 Finance review

**Louisa Burdett**  
Chief Financial Officer



# Group performance in line with revised expectations

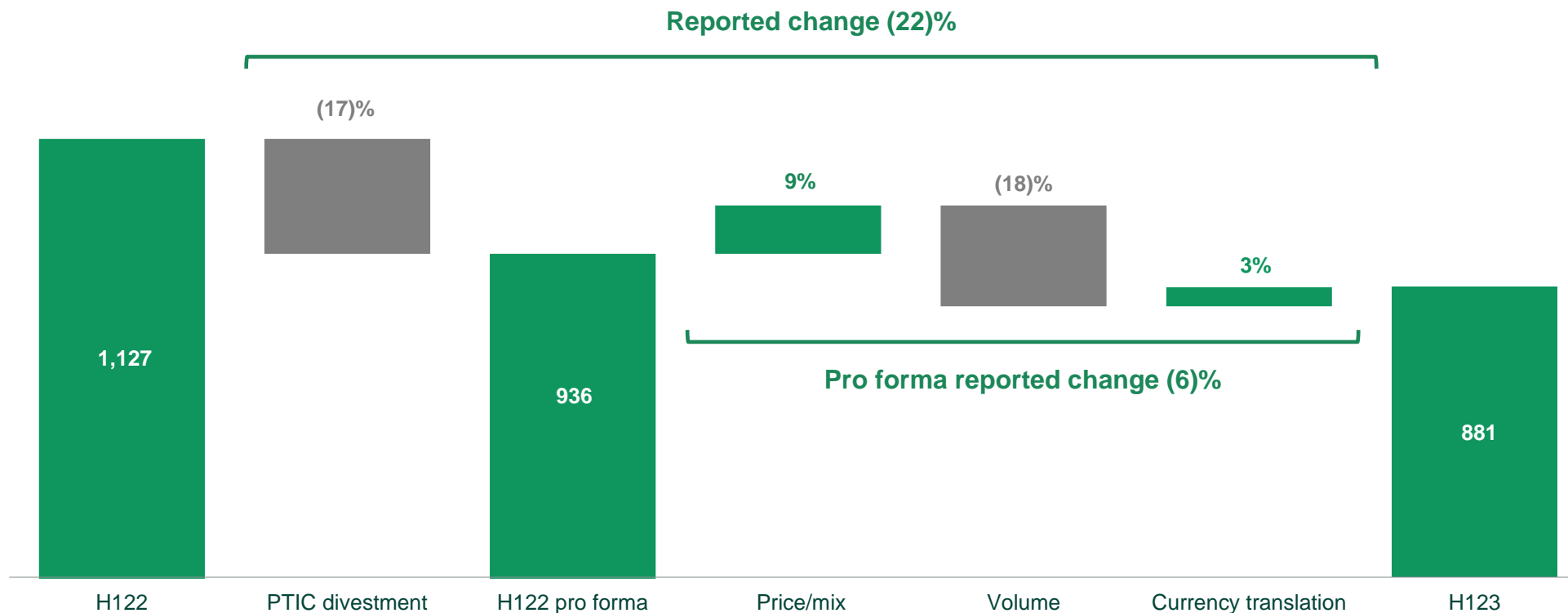
£m	Adjusted results			Pro forma estimates	
	H123	H122	% change	H122 (pro forma)	% change (pro forma)
Sales	880.9	1,127.3	(21.9)%	936	(6)%
Operating profit	175.8	300.4	(41.5)%	261	(33)%
Operating margin	20.0%	26.6%	(6.6)ppts	28%	(8)ppts
Profit before tax	174.3	288.8	(39.6)%	256	(32)%
Basic earnings per share	92.9p	155.2p	(40.1)%	–	–
Ordinary dividend per share	47.0p	47.0p	0.0%	–	–
Free cash flow	76.4	21.1	262.1%	–	–

Reconciliation to IFRS, £m	H123	H122
Adjusted PBT	174.3	288.8
Exceptional items	(28.5)	4.4
Amortisation of intangibles	(17.1)	(17.3)
Gain on disposal	–	360.6
<b>Reported PBT</b>	<b>128.7</b>	<b>636.5</b>

Reported currency unless stated. Pro forma H122 estimated results have been adjusted for the divestment of the majority of Performance Technologies and Industrial Specialities (PTIC) on 30 June 2022

# Sales supported by positive price/mix and FX

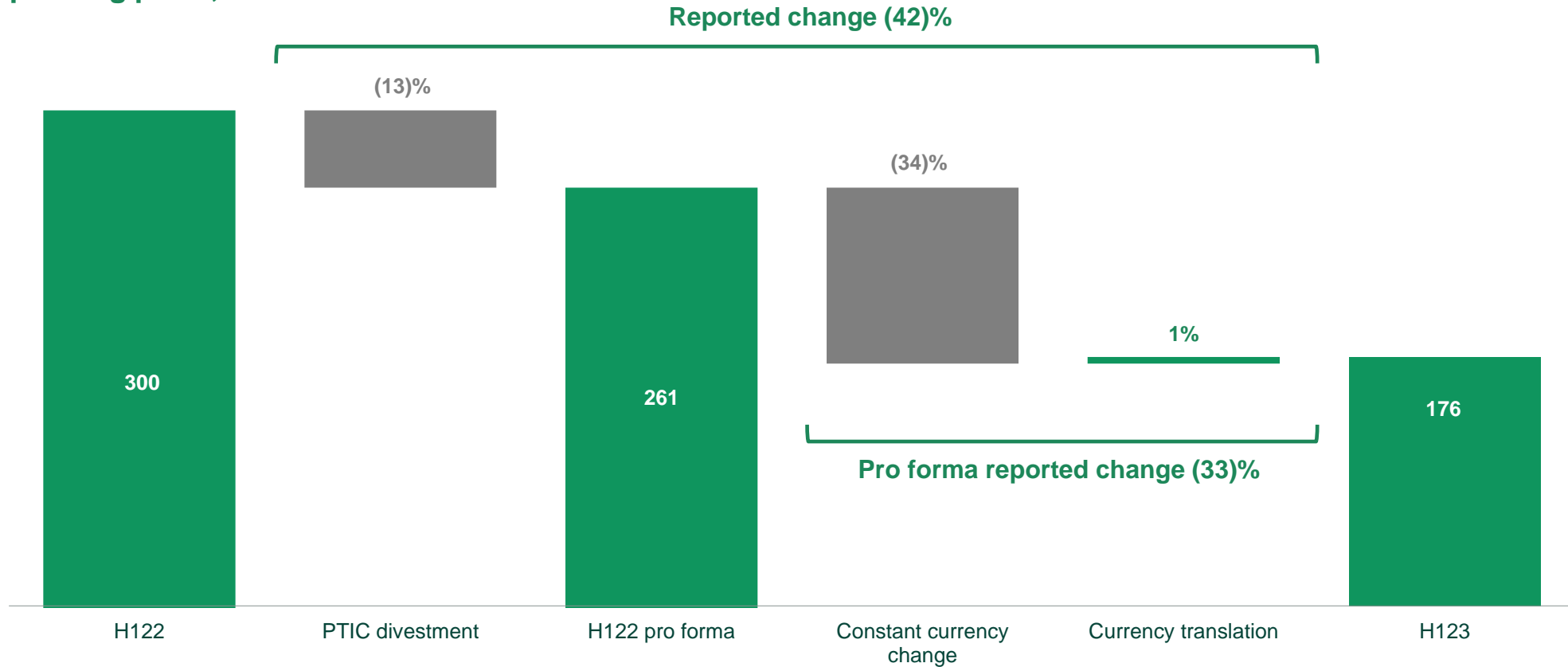
Sales, £m



Pro forma H122 estimated results have been adjusted for the divestment of the majority of PTIC on 30 June 2022.

# Profit impacted by lower volume and phasing of CV-19 lipid sales

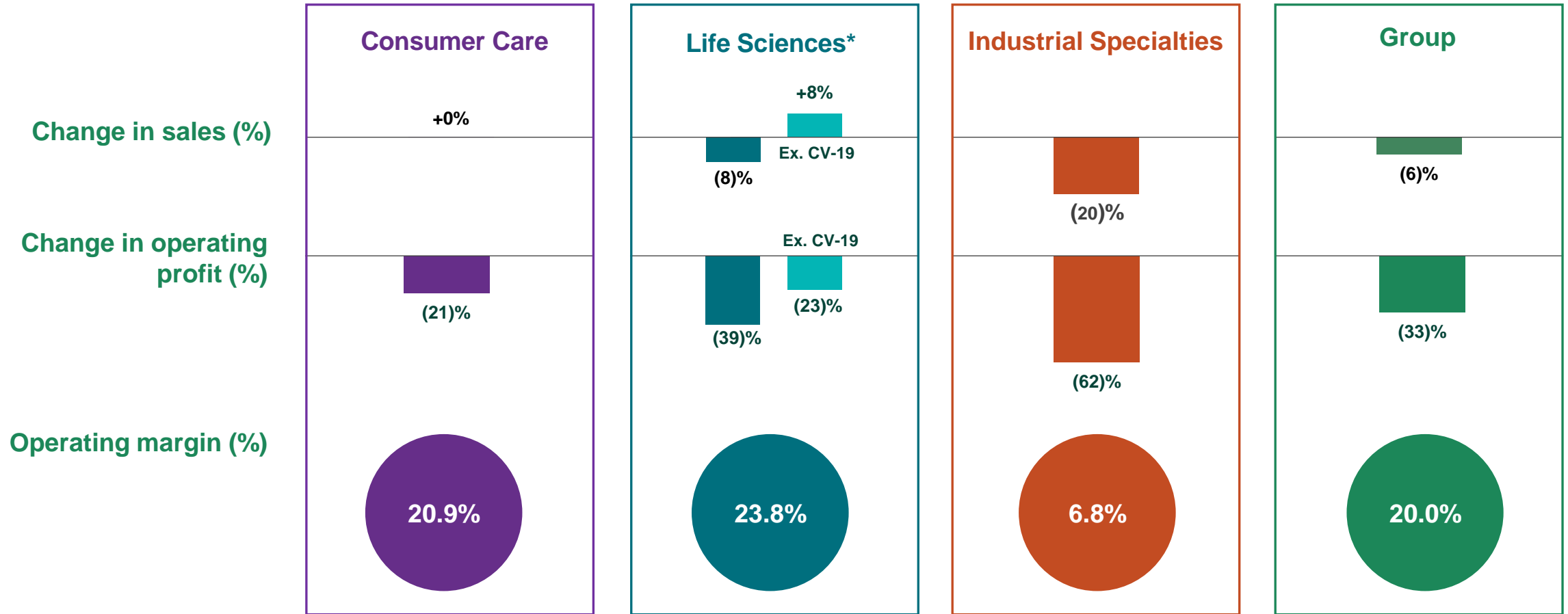
Adjusted operating profit, £m



Pro forma H122 estimated results have been adjusted for the divestment of the majority of PTIC on 30 June 2022.



# Resilient sales in Consumer Care and Life Sciences

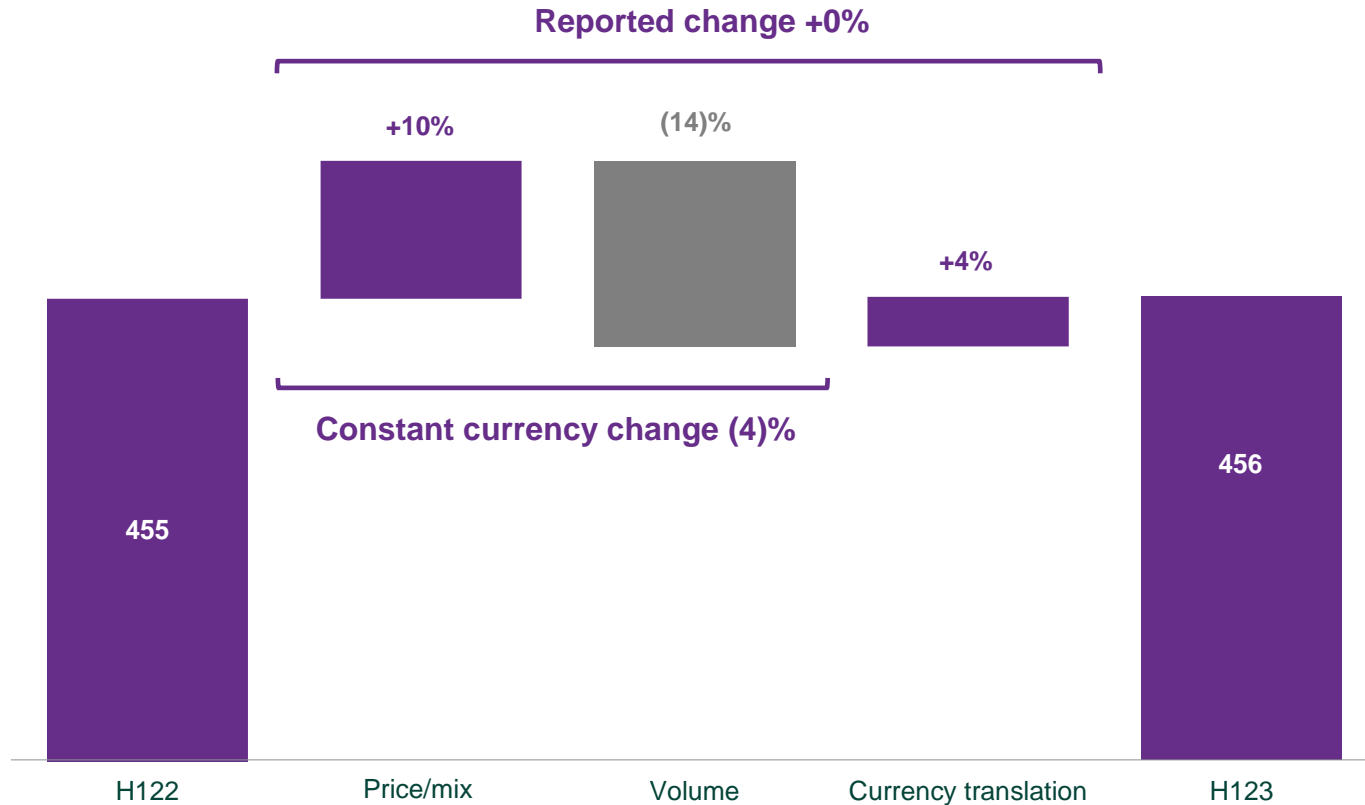


Reported currency and adjusted results. IS and Group performance is on a pro forma basis.

\*Ex-CV19 is growth excluding \$62m prior year CV19 lipid sales.

# Resilient sales in Consumer Care

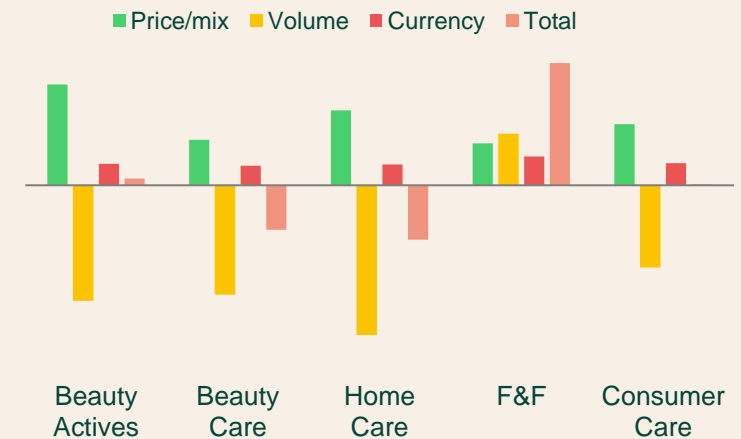
## Sales, £m



Reported currency.

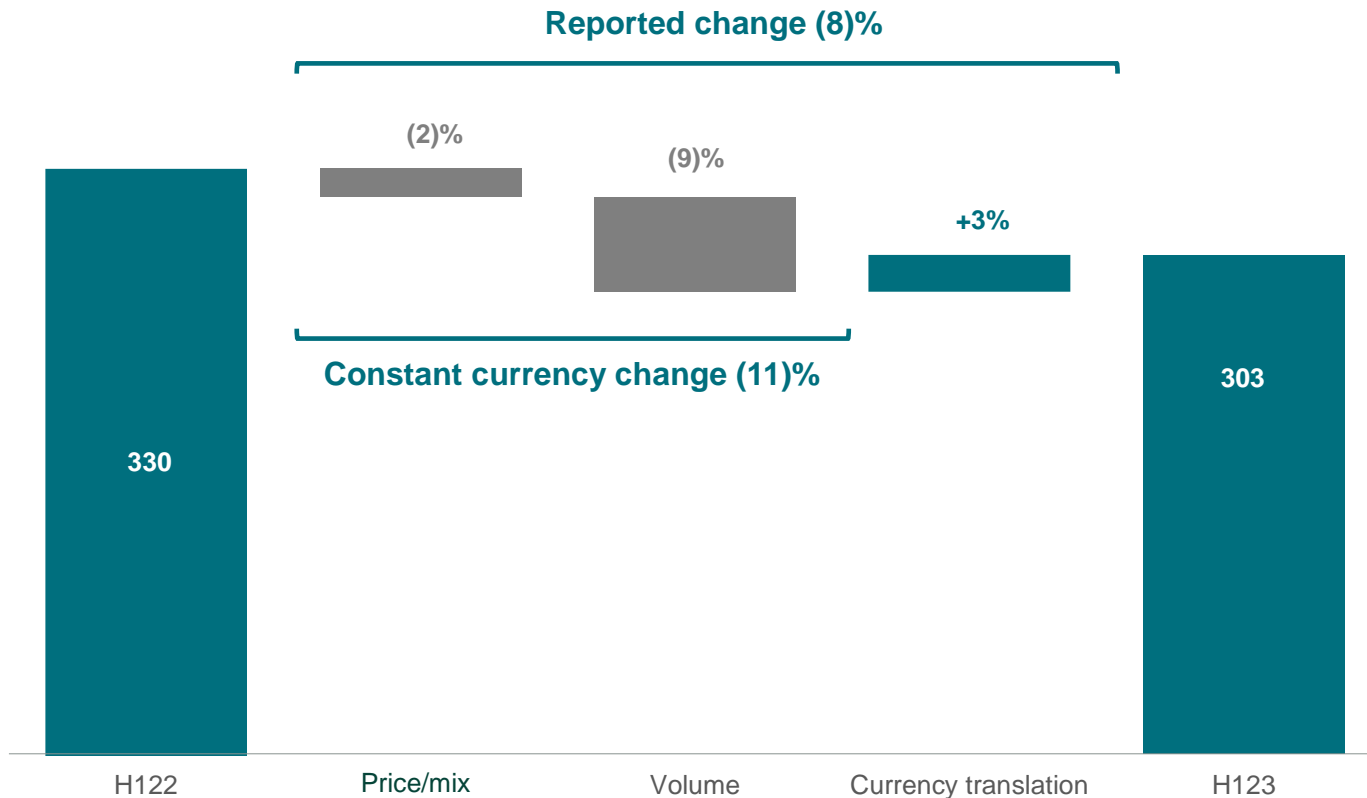
- Resilient sales performance despite continued destocking
- Positive mix (+4%) and annualisation of prior year price increases (+6%) supporting price/mix
- Volume down 14% versus H122 – of which 10 ppts estimated to be market-driven
- Volume up 8% versus H222

## Business unit sales growth (%)



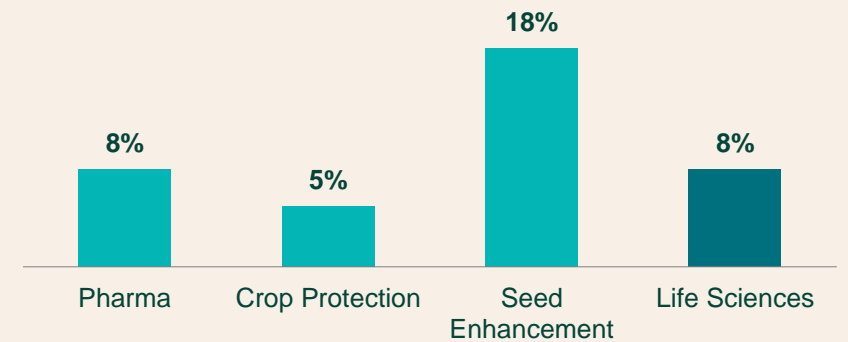
# Life Sciences sales lower due to phasing of CV-19 lipids

## Sales, £m



- Prior period included \$62m of CV-19 lipid sales
- Sales up 8% excluding CV-19 lipid sales
- Rapid destocking in Crop Protection in Q2

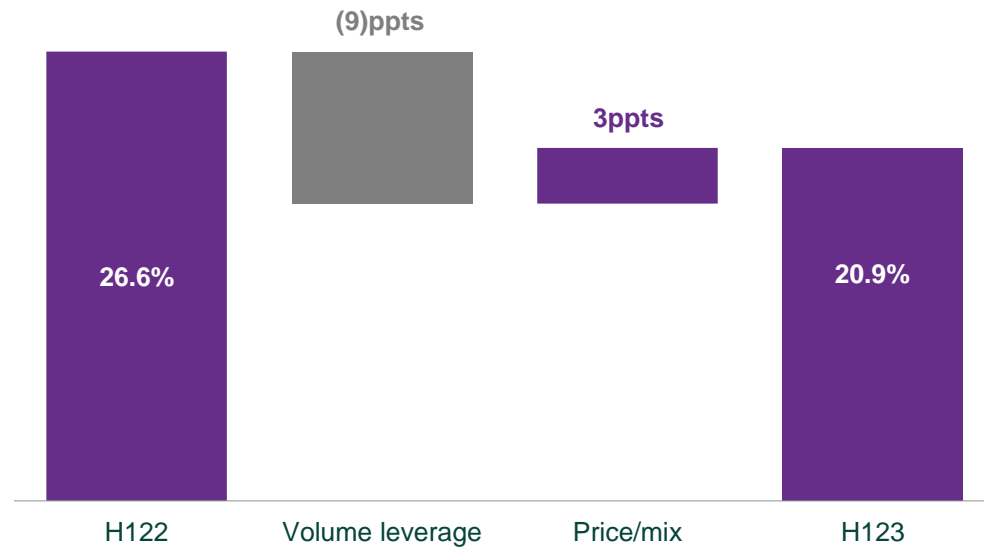
## Business unit sales growth excluding CV-19 lipids (%)



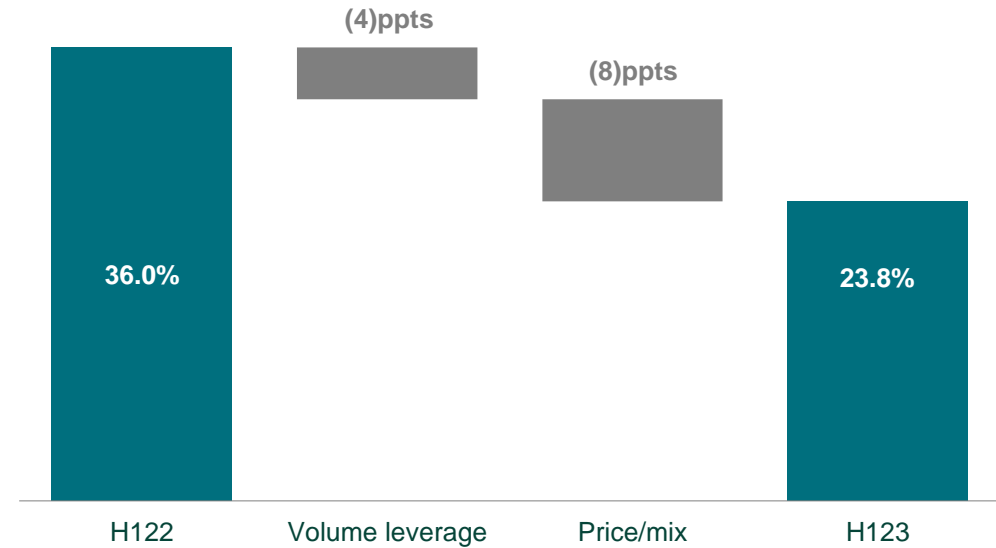
Reported currency.

# Operating margin impacted by lower volume and mix

Consumer Care, operating margin (%)



Life Sciences, operating margin (%)



- Volume recovery should support improved margin
- Positive impact from mix particularly in Beauty Actives

- Weaker volumes driven by Crop destocking
- Price/mix impact due to no CV-19 lipid sales in H123

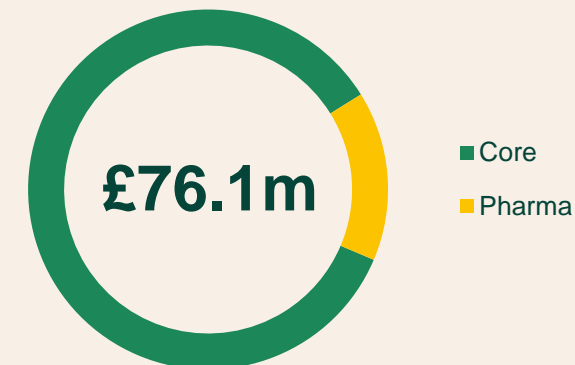


# Improved free cash flow

Cash flow, £m	H123	H122
<b>EBITDA</b>	<b>219.2</b>	<b>343.9</b>
Working capital	(9.7)	(183.8)
Net capital expenditure	(76.1)	(61.8)
Interest & tax	(47.3)	(73.4)
Other operating items	(9.7)	(3.8)
<b>Free cash flow</b>	<b>76.4</b>	<b>21.1</b>
Dividends	(85.1)	(78.8)
Acquisitions	(11.2)	(14.2)
Business disposal	(4.4)	613.4
Other cash movements	(42.4)	(22.1)
<b>Net cash flow</b>	<b>(66.7)</b>	<b>519.4</b>
	<b>H123</b>	<b>FY22</b>
Net debt	349.3	295.2
Net debt/EBITDA	0.7x	0.5x

- Improved free cash flow
- Lower working capital outflow more than offset lower profit and higher capex
- Pharma investment progressing
- Net debt 0.7x at period end; 1.1x accounting for completion of Solus Biotech post period end

## First half capital expenditure



Pharma refers to 2021-24 Pharma investment programme of £175m.

Reported currency.

# FY23 outlook

## Adjusted profit before tax

- £370 – £400m
- Assumes no improvement on H1 run rate

## Capital expenditure

- £170 – £180m in FY23
- Heightened capex supporting multi-year Pharma investment programme

## Currency assumptions

- PBT guidance based on prevailing FX rates:
  - US\$: 1.2316
  - €: 1.1485

## Working capital

- Anticipate full year outflow
- Reflects phasing of sales with increase in year-end receivables position

## Cost initiatives

- Temporary cost measures to protect profitability
- Will review if current market conditions persist for longer

For further information on currency exposure see Additional Financial Information section below

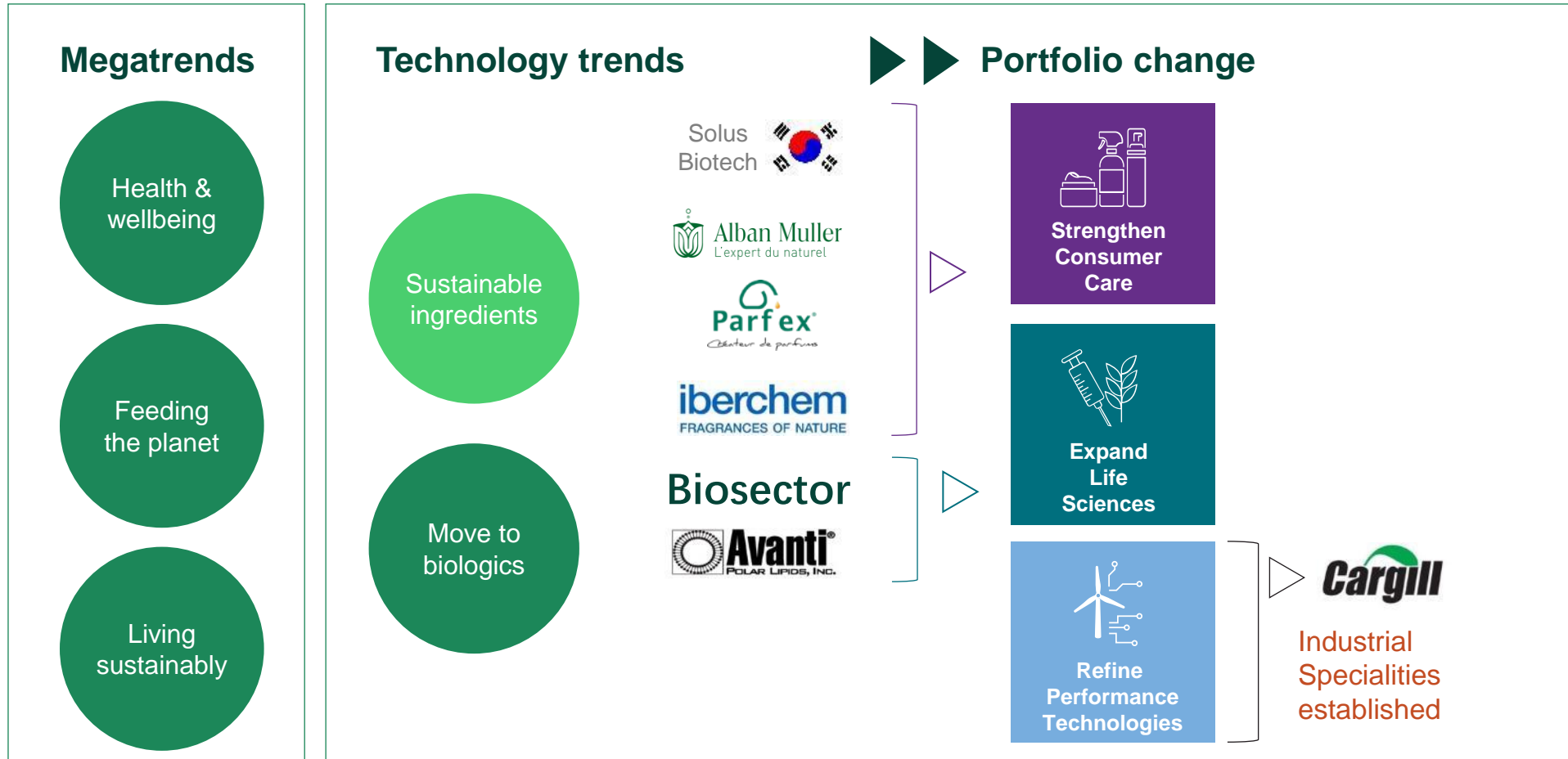
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# 03 Relentless execution of strategy; well placed for recovery

**Steve Foots**  
Chief Executive Officer



# Portfolio realigned with exciting megatrends



Moving to pure play Consumer Care and Life Sciences ingredients business

Cargill logo sourced from website.



# Creating bigger niches and higher growth

## 7 dynamic businesses

		Beauty Actives
		Beauty Care
		F&F
		Home Care

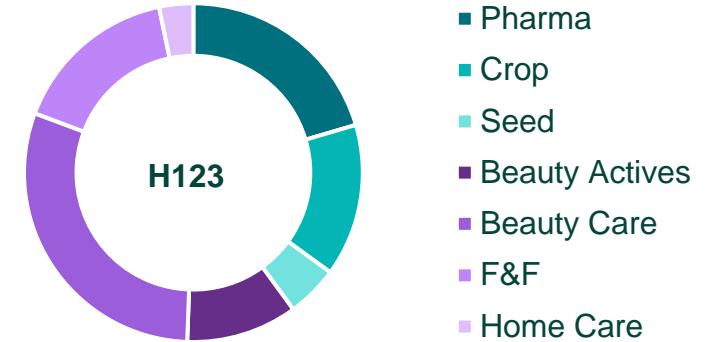
## Bigger niches

Industry niche	CAGR
Anti-ageing	9%
Salon hair care	4%
Sun care	4%
Niche fabric care	6%
Fine fragrance	6%

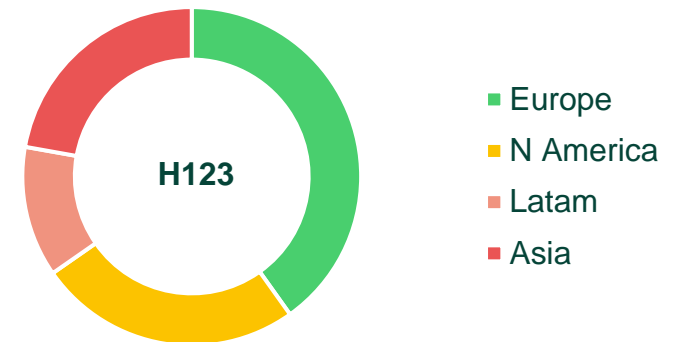
		Pharma
		Crop Protection
		Seed Enhancement

Industry niche	CAGR
Small molecules	5%
Proteins	10%
Nucleic acid	>20%
Biopesticides	8%

## Well balanced portfolio



## and well balanced geographic footprint



**Bigger niches, bigger opportunities, higher sales growth**

CAGRs (compound annual growth rates) cover different time periods. Portfolio breakdown excludes Industrial Specialties.

# Why we are successful – significant sources of growth



Strengthen to grow

## Beauty Actives



- Enhanced portfolio
- Biotech-enabled
- Unrivalled claims substantiation

## Beauty Care



- Sustainability leader
- Go-to-market partner
- Fast-growth in Asia

## F&F



- Focused on high-growth markets
- Delivering synergies
- Moving to sustainable fragrances



Expand to grow

## Pharma



- Research / drug delivery focus
- High potential innovation pipeline & new partnerships
- Operational scale-up to support breakout growth

## Crop Care



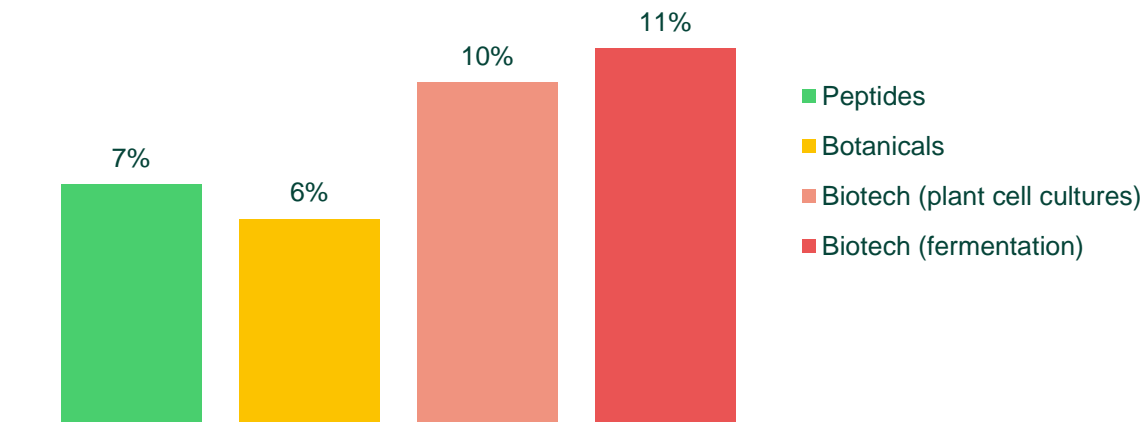
- Global innovation partner for delivery systems
- Meeting sustainability challenges & enabling move to biologics
- Microplastic-free seed coatings

# Enhanced Beauty Actives portfolio with new claims



## Enhanced portfolio for faster growth

- >15,000 customer/product combinations
- Moving to biotech and lower carbon
- Filing c10 biotech patents each year
- Commercialising knowledge
  - In-house innovation
  - Small technology acquisitions
  - Bolt-on acquisitions (eg Solus Biotech)



CAGR 2022-2027; future growth rates are management estimates

## Unrivalled science-based performance claims

### Volume

Body by fringe projection

### Wrinkles and skin relief

Crow's feet | Full face by fringe projection | Neck wrinkles

### Hair

Hair bulb | Hair pigmentation | Hair greying | Beard growth

### Colour disorders and skin radiance

Normal visualisation | Melanin visualisation (VISA®) | Redness visualisation

### Moisturisation

Dry and chapped lips | Macrophotography

# Increasingly biotech-derived



## Peptides for anti-ageing

**PEPTICOLOGY™**

NEW IN H1

No7's exclusive world first peptide blend supports the skin's natural self-repair.

Peptide – powering Boots No 7 Future Renew

## New peptide applications

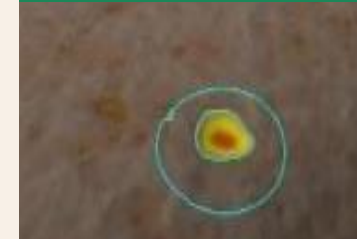
NEW IN H1



BB-Biont – powering Deciem anti-acne solution

## Plant cell culture for UV damage

NEW IN H1



T0



+2 months

Mel[o]stem – fades age spots caused by the sun

## Marine biotech for skin

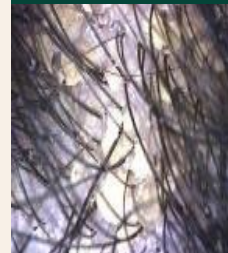
NEW IN H2



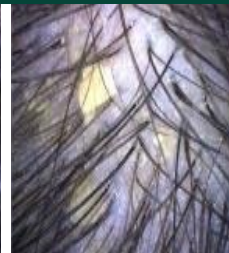
Counteracts hypoxy-ageing induced by air pollution

## Marine biotech for hair

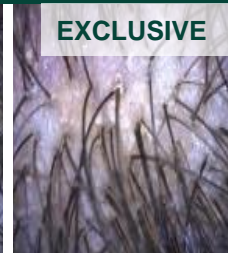
EXCLUSIVE



T0



+7 days



+14 days

Anti-dandruff active; 'skinification' of hair care

## Bio-based ceramides from Solus

NEW IN H2



Rapid moisturisation; 'plug and play' into portfolio

#1 in peptides & PCC ...and now fermentation

Enhanced by delivery technologies / vectorisation



Solus Biotech



# Sustainability leader benefiting customer scope 3 carbon



## #1 in sustainable surfactants



EXPANDED

- Renewable ECO gathering pace
- Rapid growth of carbon-neutral sulfate-free range
- New biotech-derived surfactants

## Biodegradable hair care



NEW IN H2

- Bio-based and low aqua-toxicity conditioning agents
- Proprietary PEG & PPG-free emollient for hair shine

## Vegan-friendly hair conditioning



NEW

- New fast-growing platform of vegan-friendly biopolymers
- Delivering healthy hair

## All-mineral sunscreen range



EXPANDED

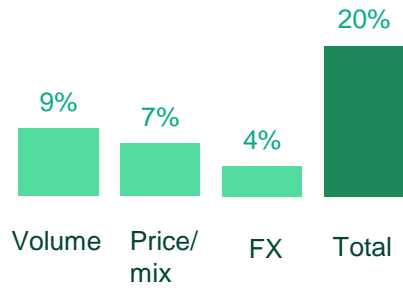
- Extending leadership position
- Reef-safe, inorganic UV filters
- Superior SPF performance
- Appear clear on the skin

Enabled by product carbon footprint data including decarbonisation to 2030

# Rapid development in Fragrances



## Great growth in all main regions



- Excellent growth across all categories and established regions
- Strong momentum in Middle East and Asia

## Synergies building



- Croda-enabled growth accelerating
- Number and size of projects increasing
- New multinational and regional customers

## R&D expansion



- New China R&D and production facility
- New creative centre in Indonesia
- New creative centre for natural fragrances in Grasse, France
- New neuroscience lab in Spain

## Moving to sustainable fragrances

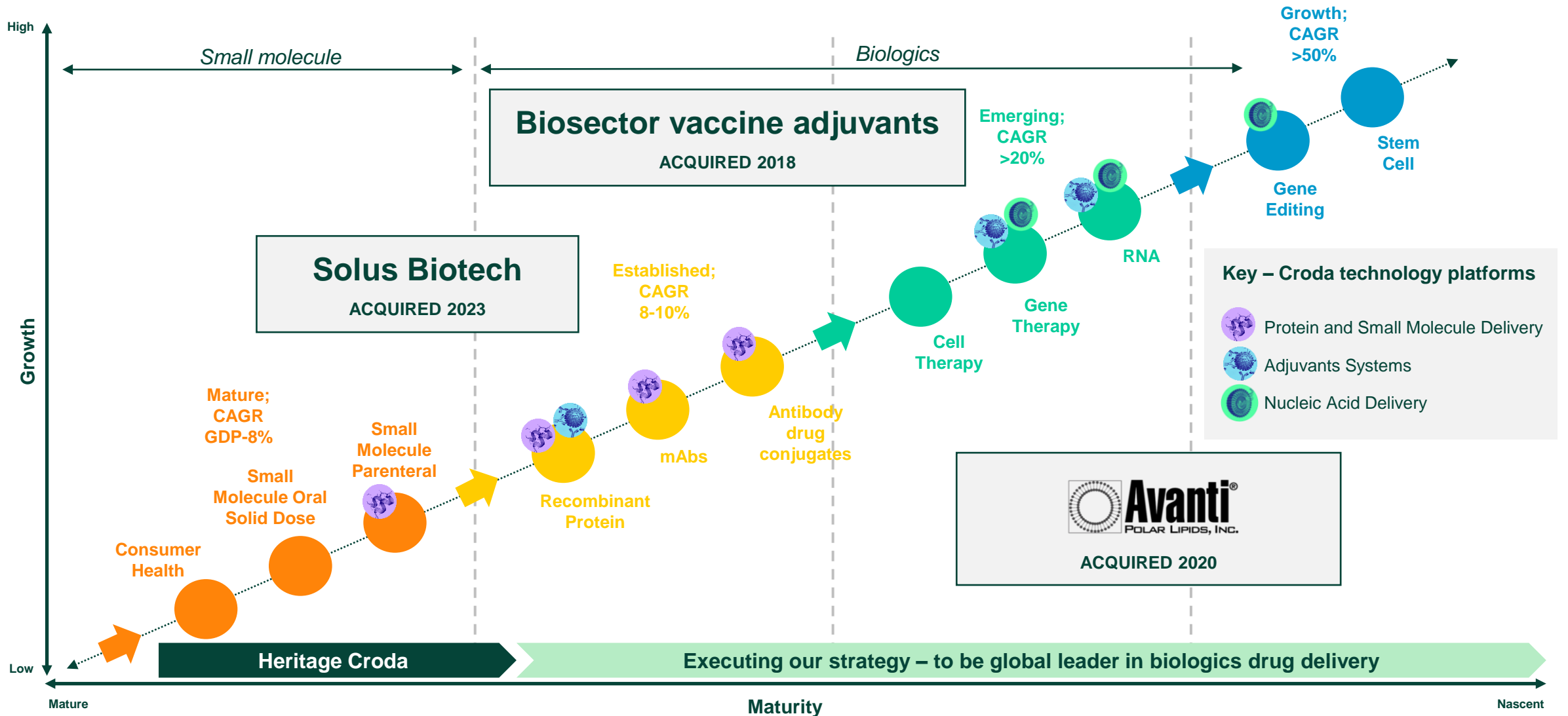


- Portfolio shift to sustainable footprint
- Product pipeline expanding in biotechnology and biodegradability
- New Neutrafresh launch – developed by F&F, sold by Home Care

# Investing for faster Consumer Care growth in Asia



# Investing in Pharma to balance near and long-term growth



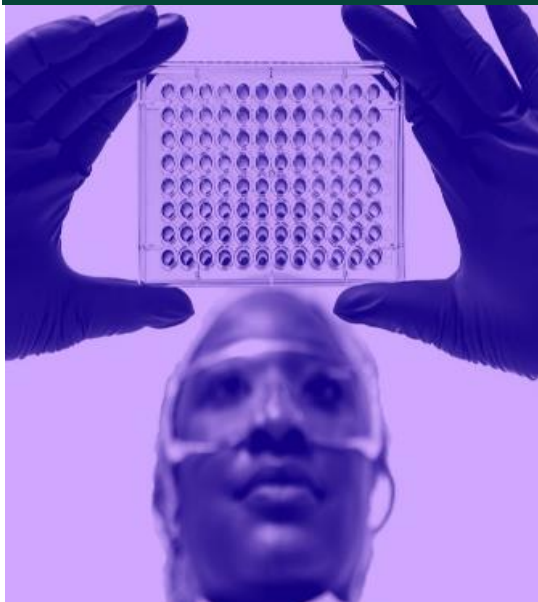




# Exciting proprietary bioprocessing aids and phospholipids for protein and small molecule delivery

## Croda's new bioprocessing aids

NEW



**Market need** - sustainable alternative to current bioprocessing aid, now banned in Europe.

**Croda solution**

- Virodex™ launched in June.
- Safe and effective alternative
- Superior performance
- Industry-leading testing
- Many projects initiated

Bioprocessing

## Phospholipids from Solus Biotech

NEW



**Market need**

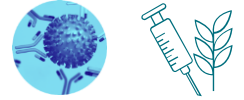
- Pharma-grade phospholipids for drug delivery and intravenous nutrition

**Croda solution**

- New phospholipids
- 'Plug and play' into Croda portfolio
- Naturally-derived
- GMP manufacturing facility in South Korea
- Future potential manufacturing for Avanti lipids

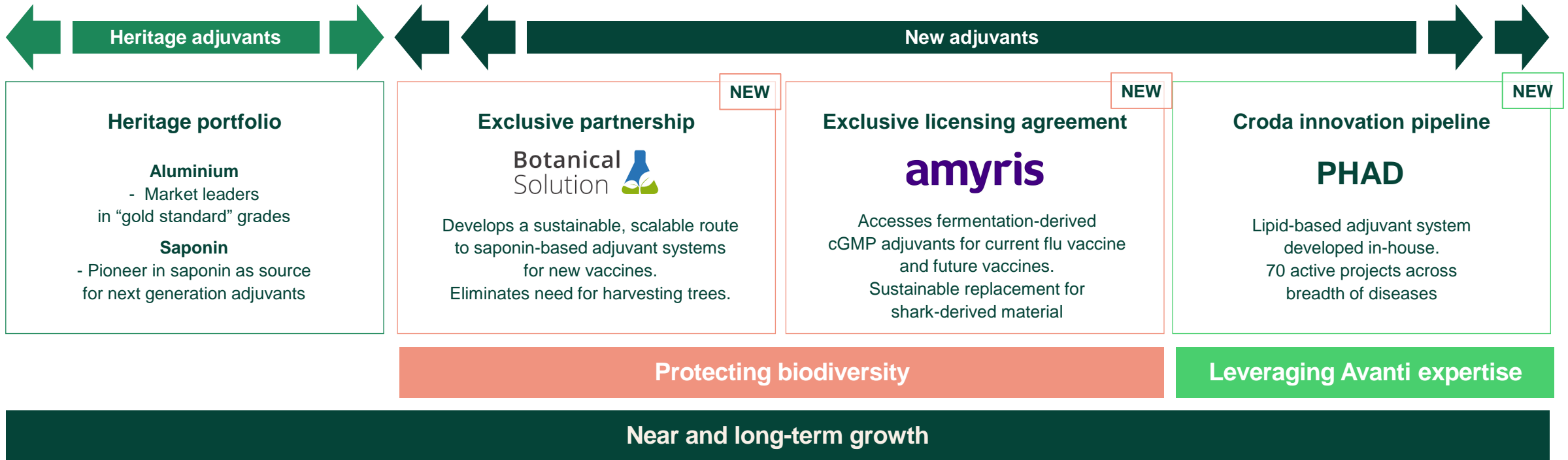
Drug delivery

Near and long-term growth



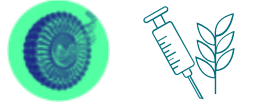
# ...with new adjuvant systems launched through partnerships and innovation

Only independent supplier with full portfolio of adjuvants required for new prophylactic and therapeutic vaccines





# ...with a nucleic acid delivery platform growing rapidly



## World-class Avanti research



- 70 new products this year
- 4,800 academic citations pa; doubled in last decade

**Research sales CAGR >20% 2020-22**

## mRNA vaccines for infectious diseases



Example: **Influenza**

## mRNA therapeutic vaccines for cancers



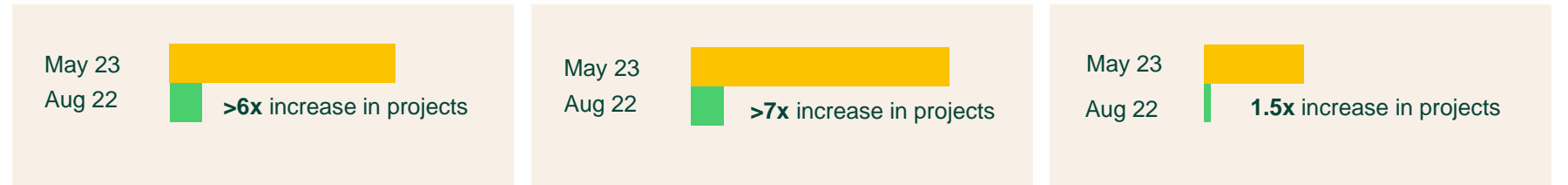
Example: **Cancer Immunotherapy**

## Gene editing therapeutics



Example: **Genetic Heart Disease**

### Growth in total pharma industry projects (research to clinical trials)



From 2025

Commercialisation expected

From 2027

**Croda supporting >50% clinical trials that specify a lipid delivery system**



# ...all supported by global investment to scale the business



Investment delivering portfolio breadth for near & long-term success

# Key takeaways

- Continued strategic progress despite challenging environment
- Ongoing investment for future growth
- Consumer Care improving; exciting progress in Life Sciences
- Actions to protect profitability
- Well positioned when environment normalises
- Confidence in strategy and future outlook undiminished



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# 04 Questions



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# 05 Additional financial information

# Currency exposure

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## Currency translation

Favourable profit impact in H123 as Sterling remained weaker against the US\$ and Euro despite strengthening through the period

### H123 average rates:

- US\$1.234 (H122: US\$1.301)
- €1.141 (H122: €1.189)

### Average annual impact:

- £1m per \$cent pa
- £1m per €cent pa

US\$ and € represent approximately 65% of currency translation exposure

# IAS 19 retirement benefits

£m	30 Jun 2023	31 Dec 2022
Market value of assets	933.1	969.3
Value of liabilities	(839.1)	(869.2)
Surplus pre tax	94.0	100.1
Deferred tax	(22.0)	(24.8)
Surplus post tax	72.0	75.3

Reported currency except where stated.