Croda International Plc

Results for the six months ended 30 June 2021

Call transcript

Key:
Steve Foots – Chief Executive Officer
Jez Maiden – Group Finance Director
David Bishop – Director of Investor Relations

Steve Foots – Chief Executive Officer

Good morning everyone, many thanks for joining us this morning for another virtual presentation. Given how long it has been since we saw you last, we've decided to do this by video just so to reassure you that we are still very much alive!

So, ok then, let's get on with it. As ever I am here with Jez, and he will come on to talk about the numbers following a brief introduction from me. I will finish off by updating you with some more detail on various aspects of our strategy and we will then be very happy to answer your questions.

So, turning to the next slide then. Overall, Croda has delivered a record first half performance driven by the strategic moves that we have made over the last 12 months. Underlying sales increased 27% on H1 2020, which of course impacted by Covid, so important to point out that this is also 10% ahead of H1 2019. Including acquisitions, reported profits are up 50% vs 2020 or 35% versus 2019. The Group margin is also ahead of the prior year, and despite the acquisition of Iberchem where margins are lower. That progress has led to a further 10% increase to the interim dividend, continuing our 29-year track record of dividend growth.

There are three key areas that have driven this performance. Firstly, our existing business. We've seen strong underlying growth in our existing business benefitting from significant investment together with increased innovation. End-consumer demand has also continued to recover with the additional benefit of customer restocking in line with strengthening economic conditions.

Secondly, acquisitions. 2020 was a year of significant investment with nearly £1bn invested in both inorganic and organic growth – well we have really seen the benefits of that, notably the acquisitions of Iberchem and Avanti which are opening up some very exciting and significant opportunities for Croda. Thirdly, Life Sciences, which has delivered an excellent performance, and with our Health Care business performing exceptionally well. So very encouraging progress, and testament to the strategy that we have been focused on accelerating over the last 12 months.

So turning the page just over to the headlines then, sales were up 38% due to higher volumes and price increases. This is reflecting our ability to successfully pass along raw material costs, as well as the benefits of recent acquisitions. Good growth in high-value niches helped push the margin higher and the combination of increased sales and an improved mix delivered a near 50% improvement in operating profit. Cash flow fell as a consequence of growing demand and increased capex to support our exciting opportunities for growth.

Because the second quarter of last year was weak due to COVID, we have been monitoring business performance against the same period in 2019. So stripping out acquisitions and lipid system sales, all sectors are ahead double-digit on an underlying basis, with volumes much better than 2019 and price / mix ahead in Consumer Care and Life Sciences.

Sales of New and Protected Products as a percentage of total sales are also ahead of 2019 levels, with acquisitions and lipid system sales benefiting reported NPP as we continue our journey to become a more knowledge intensive company, we continue to build our brain in Croda. Overall, 85% of our profits are now generated in life science and consumer markets. And all sectors are delivering great growth.

Turning briefly to each of the sectors then in turn. Personal Care continued the progress that we saw through the second half of 2020, but at a faster pace driven by Beauty Actives and stronger demand in the America's. Better product mix and increased innovation, focused on natural ingredients and biotechnology, is enabling us to capture growing consumer demand. We are also very pleased with Iberchem's progress and the new opportunities that it is opening up in the fast-growing fragrance market for us.

Life Sciences has been simply outstanding and continues to exceed our expectations. We've seen strong momentum across all areas, with underlying sales in Crop Protection and Seed Enhancement both increasing by double digit percentage. The highlight was health care where adjuvants and speciality excipients both grew by more than two thirds. Our investment in developing our Lipid Systems, by which we mean both lipid excipients and other Avanti lipid products, has been a major benefit. We now expect to generate at least $200m of sales from Lipid Systems this year, principally to Pfizer-BioNTech, an increase on the $125m that we communicated back in March.

We've also seen a very strong recovery in Performance Technologies, driven by the broader industrial end market recovery and our exposure to next-generation, sustainability-driven applications. We also saw margins returning to 2019 levels, increasing to 15.6% versus 10.9% for the second half last year.

So overall in the round an outstanding half with momentum in the business as strong as I have seen it over the last decade, more on that when I come back. Let me stop there and hand over to Jez to go over the H1 performance in more detail.

Jez Maiden – Group Finance Director

Thanks Steve and good morning everybody.

As Steve has said, the first half of 2021 has seen a record financial performance for the Group. Sales were up 39% in reported currency at £934m and increased by 47% in constant currency. The recent strength of Sterling means that reported currency numbers are generally about 8 or 9 percentage points below constant currency numbers across our financial metrics.

Adjusted operating profit increased by 50% to £242m. This reflected a better overall product mix and volume, resulting in return on sales increasing by 190 basis points to 25.9%. Adjusted profit before tax came in just shy of £230m, up 50% on prior year.
With the effective tax rate broadly unchanged at 24.4%, the increase in the number of shares in issue following the Iberchem equity placing at the end of last year saw adjusted earnings per share up 40% to 124p. The interim dividend is increased to 43.5p, up 10% per share and 19% in cash cost.

Perhaps the only disappointing number on this slide is free cash flow, which dropped 47% on prior year to £43m, due to higher capital investment and working capital build, which I will explain later.

Adjusting profit items charged in the period totalled £25m, including an increased charge for intangible amortisation following recent acquisition activity, and exceptional items just under £9m, covering Avanti deferred consideration and M&A costs. For Avanti we have increased the expected earn out to 100%, or $75m, to reflect the growth of the lipid systems platform – this is a win-win for both Croda and Avanti's shareholders. The M&A costs relate to our first half acquisitions and preparing parts of the PTIC business for sale.
Profit before tax on an IFRS basis was £204m.

The left-hand chart shows the sales bridge for first half 21 versus the same period of 2020, recalling that Q2/20 was the worst quarter for us during the Covid outbreak. Underlying sales are up 27% in the first half this year, equally split between price/mix and volume. Price/mix includes an estimated increase in average selling prices of 5 percentage points to recover higher raw material prices since year end. Mix improved in Personal Care and Life Sciences. Acquisitions added 20% year-on-year to Group sales, giving 47% constant currency sales growth. Currency translation, due to the strength of Sterling, particularly against the US dollar, had an adverse 8% impact, giving a 39% rise in reported currency sales.
I am conscious that the impact of lipid systems growth, particularly for Covid vaccines, has had a significant impact on the first half and it would be easy, but incorrect, to conclude that the strong performance has been driven predominantly by this. So, in the right-hand chart, I have looked at the first half growth rate through a different lens. Of the underlying 27% sales growth, 8 percentage points have come from lipid systems and 19 percentage points from Croda's existing business, reflecting strong growth in Consumer Care, the rest of Life Sciences and Performance Technologies. Of the acquisition growth of 20 percentage points, 14 points has come from Iberchem and 6 from Avanti and roughly half of Avanti's sales are lipid systems.

Turning now to look at the sector overview.
Consumer Care sales grew by 46% in reported currency. Adjusted operating profit growth was half this level, reflecting that Iberchem operates at a lower margin than the Personal Care business. As a result of this dilution effect, return on sales was just under 25%.
The standout performer was again Life Sciences. Having seen no discernible negative impact from COVID-19 last year, sales grew in the first half of 2021 by 61%. With a stronger product mix, adjusted operating profit almost doubled and return on sales reached 39%.
Performance Technologies saw a strong sales recovery from the impact of Covid last year, with first half sales 15% up on prior year, all organically driven. The benefit of greater volume on operating leverage saw adjusted operating profit 18% higher and return on sales moving above 15%.

Worth noting across all the sectors is the impact of a higher remuneration incentive charge on first half profitability. This comprises the bonus cost, having seen no Group-wide bonuses accrue in 2019 or 2020, together with a higher share-based payment charge reflecting the strong share price performance and the fact that the vast majority of our employees have share ownership in Croda. The impact of this was to reduce return on sales year-on-year by a little over 2 percentage points.

Now, let's look at each of the three principal sectors in some more detail.
2021 saw the creation of the Consumer Care sector, comprising Croda's leading global position in Personal Care, our growing Home Care business and Iberchem fragrances, acquired last November. After a steady recovery in the second half of 2020 after COVID-19 hit 'going out' sales of actives and cosmetics, Personal Care improved rapidly in the first half of 2021. It delivered underlying sales growth of 19%. Sales are now 8% ahead of pre-pandemic levels from 2019.

Growth was strongest in 'high end', IP-rich products, with Beauty Actives sales up 26%. Beauty Effects saw a progressive improvement in demand for sun care, cosmetics and hair care markets, growing sales by 11%, but remained constrained by some continuing lockdowns. Beauty Formulation enjoyed resilient sales through pandemic lockdown, with its focus on 'at home' use products, but still delivered 8% growth this year.

After strong demand for hygiene products during 2020, Home Care sales slowed to 5% this year. Customer relaunches using Croda's fabric care technology, together with progressive replacement of petrochemical products with bio-based surfactants from our US ECO plant, should drive future growth.
Reported Iberchem sales grew by 13%, continuing the double-digit percentage sales CAGR enjoyed pre-acquisition. Iberchem's profit was in line with our acquisition plan.
With Actives sales strong, this drove better product mix and margin improvement in the underlying business. Price/mix improved by 7% and volume was 11% higher. Iberchem, together with the smaller 2021 acquisitions, added 38 percentage points and currency translation was an adverse 10%, to give the reported sales increase of 46%.

Life Sciences continues to develop into a business to rival Croda's long held leadership in Consumer Care markets. With its focus on drug, vaccine and crop science delivery systems, the sector is growing sales through organic expansion and by leveraging acquired technologies.

The first half year saw sales up 61% and adjusted operating profit almost double. Within underlying sales, 47% higher, the existing business added 17 percentage points to sector growth. We saw an outstanding Health Care performance, with rapid expansion in all three patient healthcare platforms, with sales of vaccine adjuvants and speciality excipients each up by over two thirds and new manufacturing capacity on stream to support both platforms. Crop Protection and Seed Enhancement each delivered double-digit percentage growth year-on-year. This demonstrates the breadth of the growth across the Life Sciences portfolio.

The scale-up of lipid systems at Croda sites added 30 percentage points of growth and the successful integration of the Avanti acquisition added 23 percentage points. Currency translation was 9% adverse.

The sector is moving into higher value, lower volume niches. This is reflected in an increasing return on sales, which has risen 11 percentage points over the last 5 years.
Growth in both sales and margin in first half 2021 have been exceptionally strong. As we bring capacity on stream and deploy more people to support this growth, we expect both margin and growth to moderate somewhat. However, the overall momentum is expected to remain positive.

The first half year for Performance Technologies saw a continued improvement in sales, driven by a recovery in industrial markets and sustainability driven demand. Margins also improved due to a better business mix and operating leverage. Sales increased by 15%. Smart Materials has led the recovery, with sales up 18%. We have seen strong demand for food packaging and protective equipment, a recovery in broader polymers demand and growing customer requirements for sustainable solutions, such as biodegradable and recyclable materials.

This growth has been supported by a progressive improvement in Energy Technologies, with a 10% increase in sales. Industrial markets have recovered and our demand has outpaced this broader recovery, thanks to our exposure to higher growth markets, including next generation applications such as electric vehicles.
Underlying sales for the sector are now 11% ahead of 2019, so well ahead pre-pandemic levels.

Free cash flow fell to £43m as a result of a working capital build associated with the growth in demand and the increase in capital expenditure. Of the £98m investment in working capital, £72m was the pro-rata impact of higher raw material prices and increased demand. £20m was an increase in contingency stock to manage raw material availability and forward price rises, which leaves £6m as the net increase in working capital, so I am not uncomfortable with the position here.

We continue to deploy capital to deliver sustainable growth in life science and consumer care markets, with first half year capital expenditure of £80m. We invested £40m of this in Health Care capacity, in vaccine adjuvants and lipid systems, and we commissioned a £30m investment which has doubled capacity of speciality excipients in the US.
In Consumer Care, we invested €70m in the acquisitions of Alban Muller in Beauty Actives and Parfex in fragrances.

Total investment in capital spend and acquisition totalled almost £140m in the first half. This reflects elements 1 and 3 of the Group's capital allocation policy, which is shown here. We expect to continue with the current accelerated capital investment programme for the remainder of 2021, given the strong demand environment and range of opportunities, particularly in Consumer and Life Sciences.

In addition, in element 2, we continue to provide regular returns to shareholders, increasing the interim dividend by 10%. In element 4, we continue to maintain an effective balance sheet. At the 30 June 2021, the leverage ratio had reduced to 1.7x.
I will now hand you back to Steve to update you on our strategic priorities.

Steve Foots – Chief Executive Officer

Great, many thanks Jez. The framework for our strategy will be familiar to most of you, but at its core we believe that sustainability together with innovation will drive our future growth. Sustainability trends are increasing rapidly, driven by consumer demand and regulatory change. We are responding through relentless innovation to help customers achieve their own sustainability objectives and that is enabling us to win market share.

We have made strong progress implementing our sector strategies over the last 12 months – expanding Life Sciences, strengthening Consumer Care, and refining Performance Technologies. We've done our best work coming out of the COVID-19 crisis which I'll come onto now and the Company is in a very strong position to capitalise on this going forwards.

Turning to the next slide then, the two strategic acquisitions we made last year have delivered significant benefits for Croda. In particular, our acquisition of Avanti has enabled us to play an important role in the manufacture and roll out of COVID-19 drugs and vaccines, supporting 25 Covid related products, something that we are very proud of, each and every one of us in Croda.

Lipid system sales are now expected to reach at least US$200m in 2021, principally for our major COVID-19 vaccine contract, compared with guidance of $125m previously. Demand for COVID-19 solution ingredients remains uncertain beyond the short term and the current level of sales could moderate; but we expect to see an ongoing expansion in the range of applications for lipid systems in vaccines and therapeutic drugs over the medium term.

In future we expect lipid systems to be used for mRNA drugs and vaccines to combat other infectious diseases such as flu, and non-mRNA applications including lipid systems for vaccine adjuvants. So as a result, we expect this to become a more meaningful part of our business.

Iberchem's sales grew by 13%. The integration process has moved along at pace and we are firmly on track to deliver targeted annual synergies of €48m by 2025. Iberchem's focus on higher growth emerging markets will drive significant value for the business in the coming years.

You have heard me talk repeatedly now about focusing Croda on the fast growth markets of the future, and that is exactly what we are doing. It is all about making bigger, bolder bets on niche markets to either expand or build a leadership position and drive significant value. So across both Life Sciences and Consumer Care, these are the areas that we are focused on and where we are delivering on our purpose and using smart science to improve lives. All 8 of our core businesses shown here are performing strongly and are well positioned for future growth in markets that are already growing impressively.

Turning to drug delivery then. Drug delivery systems has been an area that we have been investing in for nearly two decades. We are focused on 3 platforms, all of which are niche, highly specialised areas where we see compelling opportunities for future growth, given the size of each market and the leadership position that we have established.

The market for speciality excipients continues to grow, driven by the expansion in injectable drugs using biological actives which continue to dominate new drug launches. Croda provides the broadest range of high purity excipients – and purity is what our customer want.

Lipid systems offer significant potential beyond COVID-19 for a wide variety of future mRNA and gene therapy applications reflected in the market value which is currently doubling each year. We have a first-mover advantage established through the Avanti acquisition, and augmented by continued innovation and over £40m of capital investment deployed in the last year.

Vaccine adjuvants are another fast-growing area. The vaccine market has more than doubled since 2019, much of this driven by demand for Covid-19 vaccines, and we are in a leading position founded on the technology that we acquired with Biosector in 2018. So we see significant opportunities in the future, combating both infectious and non-infectious diseases.

So taken in the round together, we are working on more than 100 COVID-19 projects in over 20 countries across these three drug delivery platforms, the majority of which utilise our vaccine adjuvant technologies, in addition to our expertise in speciality excipients and lipid systems.

In R&D our progress is being fuelled by innovation, innovation that is being driven by significant levels of investment and by working closely with our customers. Biological drugs – normally administered by injection in liquid form – dominate the hospital prescription market. We have the broadest range of high purity excipients for biologic formulation and have launched a further 8 excipients in the last year alone, taking the total to more than 50 that we have in the market.

So we are scaling up in all areas, with Lipid Systems being no exception. With over 200 lipid-based vaccines and drugs in phase 1, 2 and 3 clinical trials and a similar number in research, there is a huge opportunity for us and we are reinforcing our market leading position through R&D investment and innovation.

And finally, competition in the vaccine adjuvant market is mainly limited to a small number of traditional adjuvant manufacturers. We are investing in the next generation adjuvant technologies and increasing the collaboration with Avanti to become more and more involved with the fight against other World Health Organisation listed diseases.

So to ensure that we continue to grow in this area, we are rapidly scaling up our operations with £100m of capital expenditure, over £40m of which we have invested this half. We have doubled our capacity for speciality excipients in the US, with additional capability in Japan. At Avanti, we have doubled the number of employees and doubled capacity which we will start to benefit from this quarter. So as Jez has said, we have also been scaling up Avanti's technologies at existing Croda sites in the UK. We have also doubled our vaccine adjuvant capacity which is coming on stream now. These are already some of the highest returning investments in our portfolio, and we are confident that this trend will continue.

Moving to consumer markets then, this slide gives you a picture of what we are doing in the Consumer Care sector. On the chart top left, you will see that the markets for our technologies are growing more quickly than personal care as a whole. Our peptides, botanicals and biotechnology are all fundamental to both the current and future generations of personal care products, and with Biotech the fastest growing technology. Whilst the number of new product launches has been up and down through the pandemic, there has been a steady upward trend in new products with sustainability claims, more than doubling since 2019. That trend will accelerate, driven by today's younger consumer demand for green, clean, and conscious beauty. And finally, China will continue to be the fastest growing Personal Care market globally which is why we have more than doubled our presence there over the last year.

And as I have said many times now, the sustainability trend is enabling us to win in lots of new areas. In future we expect to grow Consumer Care both through novel product offerings and by unseating incumbent suppliers because two thirds of our raw materials are bio-based and our ingredients deliver sustainability benefits to customers.

So, a good example of this is our ECO range of sustainable surfactants that use corn-based bioethanol as the raw material. Our ECO plant is now fully up and running after some well documented operational issues, and we are rapidly seeing the benefits of this investment. We have seen a 10-fold increase in the number of Personal Care customers with an equivalent increase in sales and have more than doubled the number of Home Care customers in the period from a higher base.

So, moving clockwise around the slide, we are also seeing a renaissance in very mild surfactants that have been in our product range for a number of years. Unlike similar ingredients from competitors, they are sulphate-free, and this is one of the things consumers are increasingly looking for with the clean beauty trend.

Through our Sederma business in France and IRB in Italy we are the market-leader in biotechnology in Personal Care, the fastest growing beauty technology. As an example, this has enabled us to develop Majestem, a market leading product used to treat sagging skin on the face and neck – one for the senior members of the sell side dialling in to the call. This product has been created from an edelweiss stem cell culture and is just 1 of 50 products that Sederma has brought to market using biotechnology, and one of over 100 Croda ingredients that are biotech-based.

We are also creating new market niches within home care, and have recently helped Unilever to relaunch its Comfort brand in Europe and Asia using our protein technologies that protect clothes from damage in the washing cycle.

And it is all about finding more and more innovation. We are also the market leaders in botanicals – where we source ingredients from plants – a market that is growing significantly faster than the average for personal care. To enhance our position, we acquired Alban Muller in March who have a portfolio of 100% natural actives, many sourced from local farmers.

We are increasing our sustainable actives innovation to cater for that surge in consumer demand that we are seeing. Our Beauty Actives team recently launched Ameyezing, a biodegradable product with its origins in wild ginger that improves the appearance of dark eye circles.

Overall, in the last 12 months we've more than doubled the number of people we have focused on Consumer Care innovation, putting more R&D capacity close to customers and rapidly increasing biotechnology investment.

So just building on earlier comments about Iberchem, we are very pleased with its progress, delivering double-digit sales growth, with profit on-plan and good progress realising revenue synergies. Earlier in the year, we acquired Parfex, a small bolt-on that increases Iberchem's fine fragrance and sustainable offerings. We've established our Creation Centre for fine fragrances at Parfex in Grasse in Southern France, where we will advance our R&D and manufacture of natural fragrances where we see significant opportunities going forward.

And as you know, a core part of the rationale for acquiring Iberchem was to extend our presence in emerging markets. We have been increasing the collaboration between Iberchem and Croda China, supported by further investment and capacity expansions in the region. We are already seeing signs of early growth as a result which is encouraging.

And we have established a new Iberchem team on our main Croda site in Brazil, and are seeing exciting opportunities to grow Iberchem in mature markets, for example leveraging Croda's sales network and logistics teams in North America.

As I mentioned earlier, Performance Technologies has seen very strong recovery. Our smart materials technology is responding to the increased demand for sustainable solutions, such as biodegradable and recyclable polymers. In Energy Technologies too, we are seeing lots of exciting innovation that is helping us grow ahead of the market.

As we said at the time we announced the strategic review of our Performance Technologies and Industrial Chemicals businesses – collectively known as PTIC – these are good businesses with a strong and exciting future but, like Consumer Care and Life Sciences, they need ongoing investment. So we are reviewing what the best ownership structure is going forward and the work that we have undertaken in the last few months now tells us that up to 75% of PTIC could be carved out to operate as a standalone entity, or as part of another business. The critical objective is to ensure that PTIC can realise its full potential and thrive, and we will provide a further update when the strategic review concludes at the end of the year.

And finally, we are committed to being the most sustainable supplier of innovative ingredients, which is the right thing to do and also opens up lots of exciting commercial opportunities for Croda going forward. Consumers want more information about the products that they buy and we have made strong progress with our ingredient transparency project.

We are also making good progress with our decarbonisation agenda, important as much as anything when it comes to helping our customers reduce their scope 3 emissions. Our focus has been on implementing decarbonisation roadmaps that cover over 90% of our emissions and using an internal carbon price to support our decision-making.

We have recently become only the third major chemical company in the world to have a 1.5℃ Science Based Target verified, something we are very proud of. And Croda has been ranked as the number 1 most sustainable international company, putting us ahead of customers we admire such as L'Oréal and Unilever.

So in summary then, we have had a record first half year that reflects three key things. Strong underlying growth in our existing business. Secondly, significant benefits from the acquisitions of Iberchem and Avanti. And thirdly, Life Sciences, with our Health Care business performing exceptionally well.

In terms of the outlook, whilst customer restocking is expected to moderate, we expect continued underlying growth across all sectors in the second half of the year. Together with the benefits of recent acquisitions and at least $200m of lipid system sales, we now expect full year adjusted profit before tax to be significantly ahead of current expectations. So let me stop there. Jez and I are very happy to now take any questions.

David Bishop – Director of Investor Relations

Hello, everybody. Just as a reminder to covering analysts, please use the raised hand function to indicate that you wish to ask a question. When I ask you to turn on the video and unmute your mic, you're good to go to ask the question.

The first question today comes from Gunther Zechman at Bernstein. Please turn on your video and unmute your mic.

Gunther Zechman (Bernstein)

Hi. Good morning, everyone. I hope you can hear and see me. I'll start with two, please.

Thanks for providing so much information in the slide deck. Can I pick you up on slide 7 where you show the NPP growth over the last couple of years? One thing that stands out is that NPP organically, was only flat the last two years. Does Croda rely on M&A to differentiate? Where should we see that go? Should we expect more M&A to keep that going? So, that's number one.

And the second one, on the lipid systems, as you call it now, and the raised guidance, how should we think about your visibility into 2022? You said the Pfizer contract was a three-year contract, but can you give any kind of guidance of sustainability and shape after 2021, please?

Steve Foots – Chief Executive Officer

Yeah. Nice to see you, Gunther. I'm not surprised you're first with a question. Let's do the lipid systems first.

I mean, to clarify, lipid systems is the lipid delivery systems that we're supplying into the COVID vaccines now, just for clarity, plus it's the lipid delivery systems for non-COVID drugs for the future. So, that's more the gene therapy arena, you know, cancer drugs, oncology drugs and the like. So, just to get that defined for you. And it's deliberately vague as well because it covers a multitude of products.

I mean, in answer to your question, you know, at least $200m of lipid systems this year, principally with our main contract, but there are others there. If we look next year, we're likely to do somewhere in the region of about $200m again. You know, there's strong demand as this vaccine rollout continues around the world. We're, sort of, midway through that if you think about it internationally. Plenty of countries still overwhelmed with the pandemic so, you know, vaccines have still got to get round the world and a number of the key vaccine producers are spending time just doing that.

I think '23/'24 is still uncertain. We still don't know whether this is going to be an annual jab yet or whether we're going to get booster winter jabs as well round the world. I think also the immunity that you get from double jabs needs to be proven. So, there still will be demand in '23/'24, I have no doubt, but as to the quantity of that demand, we just don't know, and neither do our partners as well. So, we'll need to guide. I mean, we've got some pretty firm expectations for next year which is good, but I think sitting back, when Jez and myself look at the Avanti pipeline, particularly the non-COVID pipeline, and we'll be launching products in that pipeline next year into the market which we'll talk about, you know, if I look at five years' time, do I see a $200m business for all of these lipid systems going into both COVID and non-COVID? Yes, we do but it's going to be a little bumpy along the way as we establish ourselves because some of these opportunities are much more significant than they are in our normal customer base. So, again, that's where we see it now, to answer your question, and we'll certainly firm that up as we go along.

On to your NPP point, I mean NPP's great. We have no problem with that in the organic trajectory we expect that to continue to grow. The way we look at that is NPP should grow twice the average growth rates. The problem we're seeing at the moment, of course, is the average growth rates are so strong on this rebound that, actually, they're not growing at twice the rate, but they are growing very healthily. And, you know, just if you look at year-on-year, if you look at absolute growth, what you're seeing in the numbers is an assessment of NPP in both Avanti and Iberchem with our normal rules that we apply for this, which are very strict rules, by the way.

So, what we're starting to see if that the acquisitions that we're buying are actually very much knowledge intensive. We've got richer intellectual properties than what we've got in Croda. In many ways, it's the KPIs working for us because what we really wanted to buy is knowledge. You know, we can naturalise people's knowledge rather than metal capacity.

So, what we wanted to do in acquisition is to acquire clever people and intellectual property more and more. So, that's what you're starting to see. So, you know, high 30s is where it's shaping up, and obviously that's before we think about separation of PTIC as well.

David Bishop – Director of Investor Relations

Thank you, Gunther. The second question comes from Charles Eden at UBS. Go ahead, Charles.

Charles Eden (UBS)

Hi. Good morning. Thank you. If I could just ask one quick follow-up to Gunther's question, just, of that $200m guidance, or at least $200m for this year, can you just remind us how much is booked already in the first half? Is it all of that $100m lipid system sales you mentioned, I think it was on slide 14, or is it just part of that? So, that's my follow-up.

Then, just on my questions, firstly, Life Sciences' margin, obviously significantly expansion in the first half. Just trying to think about the sustainability of that as we go forward. How do you see the Life Sciences' margin progressing, I guess, in the second half of this year and then out into 2022?

And then, if I can sneak another one in very quickly, 13.5% price mix at the Group level with a strong contribution across both Consumer Care and Life Sciences, I guess, if you could give us a sense of how much of that is mix versus real pricing, just thinking about the pricing environment and raw materials inflation at this stage, is there is more real pricing to come in the second half? Thank you.

Steve Foots – Chief Executive Officer

Yeah. Well, let me do the lipid and the pricing. I'll let Jez do the Life Science margin.

I mean, just on the pricing, because it's the last thing you focused on, so, raw material, we haven't seen this raw material inflation in our business for well about 13, 14 years. Some of you will remember this, the last time we saw this was 2008 to 2011 as we came through that recession, and we had inflation that was double-digit for about three years. So, we're starting to see that now. We feel it's not just in raw materials, it's in logistic costs and freight costs as well.

So, I mean, Croda's pretty straightforward. First half of the year, it's about a 13% increase in the raw material basket, and we've applied 5% that we can demonstrate. We've got about 5% increases right across the board in the first half. That 13% is likely to increase to, when I look at it, Quarter 3 to Quarter 1, it's likely to increase 7% to 20%. So, at the end of Quarter 3, our raw material basket, relative to January, is likely to be about 20%. You know, that's substantial, and that's in a backdrop of the last ten years where we haven't had anything like that.

So, what we do is we've got the double benefit - we've got, obviously, the volume growth, and that's why the raw materials are going through, but we've got a pricing element that sits on top of that. And, in Quarter 3, we are applying, and we have applied, further price increases because raw materials inflation isn't coming down yet, it's going up, and difficult to see what it's going to be in Quarter 4, but Quarter 3 raw materials, you know, the market is still very strong, demand is still tight, so that's why you're getting raw materials through. So, hopefully, that answers that.

In terms of lipid systems, it's pretty straightforward. There's been $100m in the first half that we booked and sold, and, you know, we're expecting at least $100m in the second half. And the caution there is around the ability for Croda to scale up through our manufacturing capabilities and making sure we can deliver this demand as we go into next year, and we feel very confident we can do that, but the guidance is around that confidence level and, you know, some of the trajectory to the first half.

So, let me just pass to Jez for the return on sales margin, Life Science.

Jez Maiden – Group Finance Director

Good morning, Charles. So, I think the first half on Life Science margin is a sort of, whatever the opposite of a perfect storm is. It's the perfect, sort of, outcome, I guess, of how things have developed.

You've got some very strong growth in all three of the Patient Health platforms within Life Sciences. So, you've got sales up over two-thirds in vaccine adjuvants, over two-thirds in specialty excipients, and, of course, you've got the establishment of the lipid systems platform as well. So, you've got very strong growth in the highest end of the margin spread. So, I think that's the fundamental driver to the margin.

In addition, we have initially put a lot of people into the challenge of generating as much supply as possible of lipid systems to respond to COVID and, generally, that’s a lower cost solution, but it's not the solution that is most sustainable for the future. So, what we're doing from the half year is we're commissioning more of the capital spend, the £40m of capital that we put to use in the first half year, and that is commissioning around this point at the moment. So, that will actually give us a much more sustainable way of delivering the demand but it's actually a slightly less profitable way of doing it in that you've got more capital costs, you've got depreciation kicking in.

So, I think that means that the margin in the second half will still be high 30s for Life Sciences but what we see as probably then happening is that perhaps margin stabilising more into the mid-30s for Life Sciences going forward as you get that combination of capital and people, sort of, driving it forward. So, I think it's an unusually large peak in the first half year.

David Bishop – Director of Investor Relations

Thank you, Charles. The next question I have on my list is from Nicola Tang at Exane. Do you still want to ask your question, Nicola, or has it already been answered?

Nicola Tang (Exane)

I do if I may. Thanks, everyone. Nice to see you. The first question is, actually, I guess, following up just on Life Sciences. Can you clarify within the underlying 17% growth, is there a contribution related to other healthcare ingredients that are going into either COVID vaccines or COVID treatments or has that been, you know, fully singled out in the lipid system side?

And then the second question was on the Consumer Care margins which looked a bit weaker than I was expecting, even thinking about that dilution from Iberchem, so I was wondering if you could just talk us through the moving parts of dilution from Iberchem, higher incentives and perhaps you could talk a little bit about the mix because I think, last year, you lost about 300 basis points from the change in mix in the legacy Personal Care business, so I wondering how much of that has been recovered so far given the recovery in actives? Thank you.

Steve Foots – Chief Executive Officer

Over to you, Jez.

Jez Maiden – Group Finance Director

Yeah, great. Morning, Nicola. So, yes, we've split the 47% underlying growth in Life Sciences pre-acquisition between the 30% that's coming from the lipids and the 17% that comes from the rest of the Life Science platforms in Health and Crop.

So, if you've got a COVID project, so Steve talked about the 100 projects that we're working on at the moment, the projects that will fall into vaccine adjuvants and the projects that fall into specialty excipients, which go into either COVID vaccines or COVID therapeutics, those sales will be within the 17% underlying. It's just the lipid system sales that we pick up in that 30%, and we're obviously not going to always separate those numbers, it's just conscious that, you know, picking up $100m in the first half year of sales has quite a big impact and, therefore, we wanted to, sort of, separate that out.

But, yeah, the 17% has been driven by that two-thirds growth in vaccine adjuvants, two-thirds growth in specialty excipients together with, you know, modest growth, you know, mid-single digit growth in the Consumer Health platform, and then double-digit growth in both the Crop section and Seed Enhancement. So, those, collectively, are what's driving the 17%. So, very strong growth there.

In terms of the Consumer Care margins, so the positives to margin, year-on-year, is the growth of the high-end Personal Care. So, the fact that we've got strongest growth in the beauty actives is driving the margin higher and recovering the reduction that you referred to from last year. So, that's the key driver.

The dilution is coming from the Iberchem effect which is running high teens in terms of EBITDA margin, which is broadly where it was pre-acquisition, and then the impact of the remuneration charge. So, the remuneration charge, we don't normally pull out but, obviously, we're going from two years where we've had no bonus charge at all to one where we're currently working on an 100% basis. And then we have this big share base payment effect because so many people share schemes within the Croda structure and, collectively, they've added about £20m to the charge, so a little over 2%. So, you've got that dilution which actually affects all of the sectors but, clearly, it affects Consumer. So, when you put those in the mix, you come out just shy of 25.

I think our view of middle term would be we'd expect the margin to tick up from there. So, in the same way that I talked about the Life Science margin probably coming up to mid-30s, we'd probably expect to be more mid to high-20s, perhaps 26, 27 over time in Consumer. That's where we would see the natural mix settling down.

David Bishop – Director of Investor Relations

Great. Thank you, Nicola. The next question is from Charlie Webb at Morgan Stanley. Morning, Charlie.

Charlie Webb (Morgan Stanley)

Morning. Morning, gentlemen. Thank you very much for the time to answer some questions. I'm sorry to come back to it, but just a quick one on the Life Sciences margin, Jez. Just trying to understand the point you made there. Have you been capitalising some of the costs that now are going to, kind of, appear in the P&L as you now ramp up that capacity, so just trying to understand that, or was it really the case that Patient Health margins of those, kind of, sub-divisions, adjuvants, excipients and lipids, are just well above 40%? Just trying to understand how we got that perfect storm in the first half and how we think about it. Just a bit more detail there would be helpful.

And then, just secondly, on Atlas Point, not something mentioned here, but presumably that's now back and up running. I was just wondering if there were any updates on that and how we think about that in terms of the year-on-year effect given it was, obviously, a notable drag last year, you know, how we're looking for this year, that would be helpful. Thank you.

Steve Foots – Chief Executive Officer

Okay. Do you want to do the margins?

Jez Maiden – Group Finance Director

Yeah, absolutely. Hi, Charlie. So, no, we're absolutely not capitalising costs that is then going to come out in operating. All I was saying is that, you know, for example, we moved 20 people, you know, over to Avanti to work on maximising the output of lipid systems there. We've used our existing kit and a lot of people to meet the challenge really of having to mobilise the lipid systems for COVID vaccines, you know, in such a short period of time, and then what we've been doing is investing capital for the next stage. That investment is £40m, primarily on the COVID solutions, and that's going to start depreciating in the second half year because we're literally commissioning that kit as we speak now.

So, no, it's not a capitalisation of costs, I just mean that we're moving from a model that's been a little bit more people heavy to a model that's a little bit more capital heavy because the capital solution is, obviously, as more durable solution for long term. So, I'm just saying that, actually, the people solution is relatively cost effective but it's not sustainable going forward to build the lipid systems platform as we want to do. So, no capitalisation of costs. There's absolutely no one-offs or anything like that going on in these numbers, but what you'll see is a little bit more of a move to the capital based solution.

The other thing to say is the prices for lipids under the contracts tend to be highest at the start of a contract, so they come off a little bit but not significantly, and, collectively, that would mean that I think we'll be more in the mid-30s as we look into '22.

So, yeah, that's all that's going on in the equation. We shouldn't call it a perfect storm, we should call it a perfect beach day, I guess. It's everything coming together, and it will continue broadly in that way in the second half, but you'll start to see a bit more depreciation cost kick in from those new investments.

Steve Foots – Chief Executive Officer

And I think, just on the wider Life Science, I mean the way to look at it, sort of, into next year and beyond is, you know, we've always thought about 5% to 7% is, sort of, our revenue line for that. It looks like it's more likely to be 7% to 10% in terms of revenue, and that's excluding lipid systems. And lipid systems we'll manage with you separately because that's big, significant and something we think we should manage with you as we go forward year-to-year until we get some stabilisation.

But that, in itself, I mean, it's fair to say, I mean you can do the maths on it yourselves, you know, the margins in lipid systems are significantly beneficial and higher than what we see generally in the rest of the round.

So, you know, we're moving. over the next three to five years, to more and more of our gross coming from those higher margins, but Jez makes the good point that, you know, in '22, particularly, you're going to have that build-up of asset cost as we rollout the manufacturing footprints that serve that future gross.

Jez Maiden – Group Finance Director

Also important, I think, Steve, to say that that investment, although its immediate use is going to be the COVID vaccines, it's a long-term investment in lipid systems, and we see the long-term growth in lipid systems as being from other mRNA applications and gene therapy applications and so forth.

So, this isn't an investment thrown at an immediate problem, you know, it's an investment that we think is going to be highly useful as we see the portfolio, as Steve said, over five years, shift away from such a dependency on COVID to being non-COVID applications for lipids.

Steve Foots – Chief Executive Officer

Yeah. On Atlas Point, we'll do it together but, commercially, well certainly from a plant point of view, it's had its best year for a few years. You know, it's running very reliably, safely, which is really important, and it's got a routine rhythm of production now, which is important.

Commercially, it's getting more interesting, as we thought it would, so we've increased – you probably saw in the pack, or certainly in the RNS – we've increased the customer base in Personal Care tenfold this year, and we've increased the Home Care customer base twofold as well. That's the start of more and more customers moving away from, you know, petrochemical ingredients to these natural ingredients. We expect that to continue, and we'll be pushing. We have staff on the ground now ready to push for extra business as that comes through.

So, we think this trend is the start of a trend that's likely to increase over the next two or three years. So, well-placed, certainly, with our customer conversations and moving customers over to these products. So, you know, sort of, excitement building in the organisation around that. In terms of the numbers, Jez, do you want to just comment on that, this year and next?

Jez Maiden – Group Finance Director

Yeah. So, last year, on the biosurfactant plant, we had a loss of £11m, so this year we'd expect that to moderate but still remain in loss. Obviously, we had two months where the plant wasn't running and then, as Steve said, a very good first four months running on the plant and so forth. And what I think we'll see then in the second half year is a change in the raw materials which will move us away from the more inexpensive sanitising grade of bioethanol and then, as Steve says, the commercial development is really the key that returns the plant profitable, you know, as we look ahead. So, a reduced loss this year and then moving to profit as we go forward.

David Bishop – Director of Investor Relations

Thanks very much, Charlie. The next question comes from Samuel Perry at Credit Suisse. Sam, I believe you're audio only, so please go ahead and unmute your mic. Oh no we can see you as well.

Samuel Perry (Credit Suisse)

Hi, Steve. Hi, Jez. Just one question relating to the terminology of the outlook. So, in segmental disclosure you say there's no seasonal variations in the split of revenue and then, in the outlook, you say you expect similarly phasing between the first and second half periods as seen in the previous years. Can you just confirm what you expect to be the underlying seasonality in profits is now just because there's been quite a lot of large moving parts? You've got actives coming back, increasing contribution from lipids and then I think there was a Brazilian Ag sell in different half years in '19? So, that would be the first one.

And then maybe a second. On Avanti, you say that the earnout has now reached its maximum level. Has this just been from the Pfizer contract because I think, when you bought that business, you said there were five or six ringfenced opportunities to fulfil that earnout, so have any of those other opportunities started to come through and, sort of, what's the scale on revenues on those other opportunities or any timing you could give on them as well? That would be great. Thank you.

Steve Foots – Chief Executive Officer

Do you want to do the first question and I'll do the Avanti and other one?

Jez Maiden – Group Finance Director

Yeah. Hi, Samuel. Yes, so you have to make a seasonality statement under the reporting requirements. So, broadly speaking, we don’t regard our business as seasonal. However, the fact that, you know, Europe is our biggest market and Europe tends to have, you know, vacations in July, or particularly in August, means that there are fewer working days, you know, effectively for a number of our markets in the second half.

So, what we typically see is maybe 52% to 53% of the turnover and profit arise in the first half year, so that's what we're alluding to in the Outlook Statement, just that you'll see that typically. We would currently expect to see the typical pattern. You know, we've done $100m of lipids in the first half year, we're expecting to do, you know, at least $100m in the second half year.

So, there's nothing particular that we see as skewed between the first and second half. The main benefit we've had in the first half that maybe we don't expect to replicate in the second half is the customer stocking effect. So, consumer demand has been very good in the first half. We don't see any signs of that changing in the second half although, although clearly, there's still noise around COVID, but, at the moment, you know, demand looks to be very good whereas we do think that customers have been stocking in response to the potential unlocking in some markets that have still been constrained, such as in parts of Europe and parts of Asia.

So, customers have been stocking up in preparation what can be referred to as the 'Roaring 20s' and also because we've had raw material price rises, so customers often try and stock up if they see further price rises coming through, so they're getting stocked at lower cost.

So, we think that effect will moderate, but the consumer demand, we have no reason at the moment to say that consumer demand is going to slow down the second half year. So, yeah, it's just that slight seasonal effect caused by vacations, particularly in Europe.

Steve Foots – Chief Executive Officer

Yeah. On the Avanti earnout, yes, I mean, if you remember, it was $75m over two years, so the earnout finishes at the end of next year, 2022. That earnout covers both vaccine delivery products, like what we're seeing now, COVID-19, but it covers non-vaccine delivery products as well. So, it's unlikely that many of those will trigger but we're launching one or two of those early next year, so we'll see.

So, yeah, but the important point in that is the earnout is maxed out at $75m but end of next year is when it completes. So, there's, let's just say, a number of projects and products in there which is not just confined to the COVID-19 rollout vaccines.

Jez Maiden – Group Finance Director

And, Sam, we had originally provided on acquisition for 92% of the earnout, so the delta's relatively small, but we now think that it will hit 100%, so we've adjusted accordingly.

Steve Foots – Chief Executive Officer

And we always said, in Croda, it's one of the nice things to sign because, if we sign the full earnout, then, you know, it's a great contribution for the Group.

David Bishop – Director of Investor Relations

Thank you, Sam.

Samuel Perry (Credit Suisse)

Great. Thanks. Can you give any indication of the scale of those other opportunities?

Steve Foots – Chief Executive Officer

Not really, no, to answer your question! But, no, we won't and it's still too early to say. So, you know, we'll manage that as we go along with you. But, you know, I think you can hear us, in our voices and in the type, that we're getting more confident with the pipeline. We've always been confident, more confident commercialising the pipeline. How that actually materialises, '23, '24, '25, is something that's still to be determined and, you know, we'll be looking at that and guiding you along the way, for sure.

David Bishop – Director of Investor Relations

Good try, Sam! Thank you. Isha Sharma at Stifel, please. Hi, Isha.

Isha Sharma (Stifel)

Hi, good morning. Thank you for the presentation and very helpful details on the results.

My first question is on Consumer Care margin. If I calculate correctly Iberchem EBIT margin was around, was a bit below 15% taking the cue from other F&F players, it seems a bit low. Should we expect this to change in H2? And beyond that, what would be a reasonable uplift expectation at Iberchem please?

The second would be, I just am curious if you have any update for us on the contract with the Pfizer initially for the contract of three years within an agreement of five years as I understand it? Could you help us with the phasing please over the next three years?

And then just on the mid-term guidance of Life Sciences, do you stick to the high single-digit top-line growth as well as mid-30s EBIT margin after the very strong outcome today?

Steve Foots – Chief Executive Officer

So we had Iberchem, Life Science, what was the middle one again?

David Bishop – Director of Investor Relations

The contract for Pfizer.

Steve Foots – Chief Executive Officer

Yeah. Okay, on Iberchem, I mean the way to look at it is the raw material basket for the first half was 9% in Iberchem. And they're off, if you take adjusted contributions off, we feel they're off about 1% on their margins, something like that in the round when you look at that. And that's to do with just the life that you have in the Fragrance industry is passing on the costs.

I mean it's a business that screens for, you know, we're very happy with the overall contribution of the business. The top line because it's pointed towards Emerging Markets is growing largely around twice the Fragrance at one and a half to two times the Fragrance industry growth rate, so it's up at 12%, 13% now. It depends if you look at it in reported or constant. So you know, it's got great growth trajectory. We expect the margins to be around 20% to 22%, you know, that's how it shapes up for that business in the round over the medium term. So you know, business in them in good shape.

So it's had a temporary effect but not as much as you'd think. And as Jez says, we've got just over two percentage points of headwind there just because of remuneration in share-based payments that's hitting the margins, which let's be honest is great for the group. You know, 75% of the organisation are in share-based programmes now, so we want that just to increase, so it's a great day for Croda in that respect.

In terms of Life Sciences, I mean again, I think we've mentioned it before, keeping lipid systems separate so we can manage that with you, because that's quite chunky and probably got faster growth potential over the longer term. Life Sciences generally, you know, we've sort of screened for 7% to 10% for the rest of it with margins steadily climbing from where they are now, it's fair to say.

So you know, you see this margin improvement from, if you remember prior to lipid systems it was low 30s. So most of the growth is coming from high purity excipients and from these vaccine adjuvants, and you're finding that actually they are generally going to move the margins steadily upwards as well. So that's the way to look at the Life Science piece.

And then on Pfizer, I mean no real major update from what we said before. You know, we're delivering against contract. Our job really there is to deliver against their requirements and make sure that we can do that.

The relationship continues to develop, so our job now is as they rollout internationally, making sure we satisfy that demand through our two plants. And the investment that we're putting in now is important to not just future-proof that growth, so this £40m that we spent in the first half of this year is specifically for COVID-19 rollout. But we've talked about in the release as well an extra £40m that we're putting in that Jez talked about in capital. So we had £80m before and with plus £40m was £120m. Our guidance for this year is likely to be £160m. And that extra £40m is really for exclusively capital projects for non-COVID vaccine rollout. So there's a lot, all in Healthcare.

And we're putting our money where our mouth is supporting this rollout potential growth in these other delivery systems, let's just say that, from the Avanti pipeline. So hopefully that gives you a bit of colour on that. Jez, anything else on contract or ...

Jez Maiden – Group Finance Director

No, that's fine, Steve.

Isha Sharman (Stifel)

Thank you, thank you, very helpful.

David Bishop – Director of Investor Relations

Thanks, Isha. Next question from Mubasher Chaudhry at Citigroup please. Morning.

Mubasher Chaudhry (Citigroup)

Morning, hi. Thank you for you taking my questions.

Just the one left. Just going back to the margins on the Life Sciences side of things is it fair to assume that you're quite capacity constrained at the moment given that you're investing heavily, and that the growth was mainly related to price mix? And then how do you see the competitive environment going forward as other suppliers come online with their own capacity?

Do you see that pricing volume dynamic changing for yourself as there's more alternatives available to yourselves for some like Pfizer? Just some comments on the competitive dynamics would be helpful.

And just linked to that, you talked about the current Pfizer contract and delivering against that. Are kind of the pricing and volumes already agreed and confirmed, or are these both negotiable as we go into 2022, 2023? Thank you.

Steve Foots – Chief Executive Officer

I mean quickly, yeah, Pfizer volumes and price is committed so there's no renegotiation into next year. We know what volume we need to supply, and we know what the price is going to be. So we'll be satisfying that, so that's clear.

In terms of your point about return on sales and are we capacity constrained? No, we haven't been. I mean there's a slide in the pack that shows how we're spending that £40m in terms of releasing extra capacity effectively going forwards. So what we're doing is future-proofing that growth for the future.

So a lot of that margin has come really mainly from, as Jez said, it's commercialising people's knowledge with that rollout so that those margins on a relative basis are obviously high. But as we then go into putting more assets on the ground, as Jez said, this margin is likely to be more around mid-30s rather than high-30s after this year. I think we still expect high-30s second half. So that's what we're trying to guide towards just as we build this up and we get more ability to grow.

In terms of competitors, I mean there's a small number that are well known to everybody, and that's great. For this market particularly, you know, we want this market to grow very quickly, and I'm not just talking about the COVID market, I'm talking about gene therapy.

For it to grow quickly it needs a small number of partnerships that are going to allow them for in lipid delivery systems to get there. And you know, we're taking a leadership position there at the moment and we're trying to invest to make sure we retain that leadership position, but there are others, and we want our partners to be able to source from them as well. And given the sheer demand it's important that we have a small number of players there.

So for me, it's a real positive. I don't look at competition in this area as a big issue, I look at it more as an opportunity to expand the market quicker than it would. We don't want the bottle neck to be lipid systems, slowing this market down is the point that we're trying to make going forward. You know, there's 200 projects in clinical trials at stage one, two and three pipeline already for cancer drugs and for oncology drugs that have these lipid systems in there. So, you know, our mind is very much on that and thinking beyond that with the intellectual property we've got inhouse now, thanks to Avanti, how we commercialise that IP with our partners.

Jez Maiden, Group Finance Director

Hi, Mubasher. Just to add a little bit of colour to a couple of those points. I think on price mix it's obviously a very big number but as I say, you've got lots of the growth coming from the three patient Healthcare platforms. And the key thing to understand is we're not shipping tonnes in those platforms, we're shipping hundreds of kilos, tens of kilos, kilos even in Avanti's case gram quantities.

So the reason you're seeing that price mix is because you've got this big focus towards value, not volume so clearly, when we do that calculation, it falls out into price mix. So don't think of it as a capacity constrained in supply in which you're just pushing prices up, what you're doing is transitioning and you're seeing much more of the growth coming from products sort of sold in kilo quantities rather than tonnage quantities. So it's really the mix that's particularly driving that effect.

And in terms of capacity, actually we've just brought on the doubling of the speciality excipient capacity in the US that we've been building over the last two years. So that's a £30m project that came on the first half year and clearly, that was becoming capacity constrained at the tail end of last year and therefore that's one of the factors behind this growth, the sort of 67% plus that we talk about is the fact that clearly, we've been able to uncork that bottle a little bit and grow that, so there's capacity coming on all the time.

And these capital investments in Healthcare are really exciting because the paybacks are two to three years. So this is the best place for us to deploy capital to drive this forward.

Just to clarify on the Pfizer-BioNTech contract area is for three to six months. It's indicative beyond that period because clearly, it's a fast-moving market. So our volumes for 2022 are an estimate at the moment but a pretty decent estimate, we believe, rather than a firm contractual commitment.

Mubasher Chaudhry, Citigroup

Just a quick clarification. Did I hear you right earlier on saying that 2022 could also be around the $200m mark?

Steve Foots – Chief Executive Officer

Yeah, that's our indications at the moment, around $200m for lipid systems generally.

David Bishop – Director of Investor Relations

Next up is Chetan Udeshi at JP Morgan. Hi, Chetan.

Chetan Udeshi (JP Morgan)

Yeah hi, morning guys. Just looking at the slide number 11 of the pack which shows the growth bridge, I'm just trying to work out how to get to the 100 million of sales from that, because I was just looking at 8% from lipid systems plus there's 6% from Avanti. And if I combine the two it seems like it's more £95m, which will be more like $130m dollars. So I'm just trying to understand what is exactly included within 100m and what is not.

And secondly, and maybe this was already touched, but on biosurfactant plant can you remind us what is the expected contribution this year for 2022 from that plant? Sorry, 2021.

Steve Foots, Chief Executive Officer

Okay, thanks. Both down Jez's street here, both of them Jez.

Jez Maiden, Group Finance Director

Hi Chetan. Yeah, so you've got 11% growth is being driven by the lipid systems at the Group level. If you apply the 11% to the £673m with revenue we did last year that gives you about 70 million sterling, that's the $100m. 8% Of that is in existing Croda plants, the commercial scaleup, and three percentage points are in Avanti.

Avanti in total, as you point out, is 6%, and that indicates at about half of what Avanti does is in lipid systems, and about half is in other technology platforms for Avanti. So the reason is that you're using 14%, you need to use 11%. So half of the Avanti sales are driven there.

In terms of the Biosurfactant plant, look I'm not going to give a precise number. As I mentioned before, we had a loss of £11m last year. We expect that loss to be lower this year because you know, we've got the first two months of the year where we were just carrying the cost and the depreciation and so forth, but since then we've been producing.

What we need to do is to move to the lower cost raw material which will be later in the second half, and we need to get the commercial growth through the plant, which is what the case has always been built around for biosurfactants. It's about getting people out of petrochemical ingredients and either launching new products or substituting existing petrochem with the biosurfactants. So we'll see a reduced loss this year but I'm not going to give you a precise number on that.

Chetan Udeshi (JP Morgan)

Thank you.

David Bishop – Director of Investor Relations

Thanks, Chetan. Sebastian Bray at Berenberg please.

Sebastian Bray (Berenberg)

Hello yes, good morning and thank you for taking my questions. I would have two please. My first is on the question of market share within the Croda lipids market. Slide 22 indicates that is currently $1bn a year in the medical area, and I take Croda guidance at face value in the company there's $220m, $200m of sales this year, it has about a 20% market share, maybe a little over. Do you expect this to remain roughly constant as the market develops over the next four to five years?

My second question is concerning consumer care. The Flavours business at Iberchem, how has that been doing and has your view on whether or not this is in an interesting market for Croda longer term changed over the last six months?

Steve Foots – Chief Executive Officer

Okay thanks, Sebastian. Yeah, on the market share thing, I mean for Croda we don't really talk about market share, and you know, those that have followed us for years, we talk about market growth rates. And the most important thing in this area is that market growth rate accelerating as quickly as it can.

And then if we have a 20% market share or we have a 15% market, or even a 25% market share you know, it's great but it's a 25% or 15% or whatever it's going to be market share of a much bigger market. So, we think with our investments we'll continue to keep a step head, I think it's fair to say. But we're quite relaxed about competition coming in. I don't think there's going to be 20 or 30 people making these ingredients going forward, they are very difficult to make from a chemistry and a biology point of view and they're different, they need to be handled with great care. The entry level to make these is quite significant, I would say that.

But I would watch the market growth rate ahead of Croda's market share is the point I'm trying to make because we want this market to grow much quicker going forward and then, you know, we all are. There's a great opportunity for all of us there.

But yeah, and our job I think also with investment is not just capital investment. Yeah, we've doubled the number of people in Avanti from 125 to 250. They're all scientists, effectively all of them are scientists primarily, so we're doubling the brainpower at Croda in this space which is really important. You need brains in this space ahead of capital, so we want more knowledge in this business very quickly so that's what we're doing there.

In terms of your other question around the Flavours area, I mean the Flavours business is having a great start to the year and it had a very good year last year, so it's great. It's a nascent business for Iberchem, so we want to see that grow. We don't like to make hasty decisions with some of things like divestages we want to see it run through the cycle and see how it develops. And as long as its EBITDA keeps growing, its sales keep growing it's great, but it's a very good business and it has a real core home in Croda for the near and medium term because of that.

And it's a great team in Iberchem more widely and we're really pleased with everybody in Iberchem whether it's on the Flavours or the Fragrance side, you know, they're a top business. And they're demonstrating actually how we can learn from them with their speed and their market response and it's really quite stellar.

So you know, many ways for Croda to learn, and that's part of it with acquisitions, it's not just about imparting the Croda knowledge, it's about learning from others as well and getting us to think a bit differently. So we're seeing that in abundance with Iberchem and we are of course with Avanti and Biosector too.

David Bishop – Director of Investor Relations

The next question is from Martin Evans at HSBC. Please go ahead and turn your video on and unmute your microphone.

Martin Evans, HSBC

Okay thanks, David. Just a quick slightly weird question on the chemistry of the drug delivery business. I'm just trying to understand here on Slide 22, 23 your very helpful market estimate sizes for lipids, excipients and adjuvants. And given the speed of development in the drug delivery world, do you see these technologies as almost totally discrete from each other or is there an opportunity or a risk of some interchangeability, in other words, cannibalising one with the other?

I'm just thinking with the mRNA developments whether vaccine adjuvants for example, injectable adjuvants would still be necessary, or one would replace the other as the drug delivery technology evolves? Thanks.

Steve Foots – Chief Executive Officer

Thanks, Martin. A really good question, that. You're looking more relaxed than we are with your, it looks like you've got a T-shirt on there, but we've got three white shirts for the price of two in Yorkshire, so we've all got the same shirts on today, but anyway. David's is a bit tight for him because we're a bit bigger, but there you go.

Yeah, I mean a very good question. Our sense is that actually if you go forward in gene therapy with a lot of these 200 projects and beyond, you actually need more specialised lipid delivery systems for each of these individual projects.

So, we don't think one product from Croda will transition across multiple projects, we think you need that specialisation. And we don't want to get into that with you, but we'll shed some light on that when we do talk in more detail about Avanti profile in Croda and Technologies.

But a lot of it's about refining the purification separation. And we don't at this stage think, I think there's a lot of synergies between the three businesses because they're all in many ways three different business teams, and they're under the umbrella of Life Sciences and clearly the knowledge synergies of each of them are important for others, for the other businesses.

But we think they're all in their own right delivering something slightly different, so in mRNA for example, you know, maybe high purity excipients going forward, but primarily it's going to lipid systems. And the vaccine adjuvants are very much you know, it's a traditional chemistry set that we're investing in for multiple other vaccines, let's just say that.

So, I mean who knows where the technology and the science goes, but certainly in the near term we don't expect that, in our research, we're not thinking about that too much. But you know, you think about forward when they're looking at a flu and an mRNA vaccine together for example. You know, COVID vaccine and flu together. You know, who knows whether actually you might start to get combinations of these actually working together as well because you're actually putting two vaccines together in one syringe.

So that's when it probably will get a little bit more interesting as well. But yeah, a good question, and thanks for that.

David Bishop – Director of Investor Relations

Thank you, Martin. The final question this morning comes from Matthew Yates at BAML. Hi, Matthew.

Matthew Yates (BAML)

Hey, morning everyone. Just a couple of questions. The first one I think is a follow-up on what Sebastian was asking about Fragrance and the strategy there, you've obviously done a small bolt-on in Parfex. Where do you draw the line in terms of how big the Fragrance portfolio needs to be in order to have a competitive or credible offering in the market?

And the second question is around the Ag part of Life Sciences. I think you said double-digit organic growth there. Is that driven by market conditions or is there anything in terms of Croda product launches that's contributed to that?

Steve Foots – Chief Executive Officer

Yeah, thanks, Matthew. On the Ag side, I mean market conditions mainly, you know, as we've always said consistently to you all, it's normally a mid-single digit sales area for Crop Protection and a bit more than that, high-single digit for Seed Enhancement.

I think in crop protection we've seen that move from about 5% a year. In the first half it was 10% a year. Some of that is just the income of the farmers increasing as you all know, that's probably the best the farmers have had for a few years now as well. So, we're seeing the benefit of that. There's a bit of pricing in the revenue line as well because of our price increases going through as well. So, you know, we're pleased with that.

And I think Seed Enhancement generally is starting to really deliver for Croda as well, you know, it's had a very good first half too on the back of last year as well. And I like to invest in businesses that can withstand the jolt of a market environment which is either recessionary or hard and these acquisitions, and you'll see that with Iberchem and Avanti can demonstrate that they can still grow through the cycle. It doesn't matter what the cycle is, it's just a question of the rate of growth. Yeah, so in the round we're very happy with Crop.

Your other question was Fragrances. I mean, yeah, we're not looking to compete with the big players in the space. We know them all and they know Croda, and they're brilliant companies. You know, we really like them, we admire them for what they are and they're very consistent with that. But Croda's acquisitions in this space will be moving Croda to more sustainable Fragrances, effectively Eco Fragrances as I call them, so they'll be more niche in that regard.

And as ever when we look at markets, we look at the faster growth areas of the markets in particular. So the infrastructure we've got is a very good infrastructure, particularly for Emerging Markets. So, we're not going to rush to acquire lots of things, but if anything came along which we thought was really interesting in that space that I've just talked about then that would be interesting to us.

But the priority for the group is Life Sciences for obvious reasons, particularly Healthcare and the top of Personal Care from a sustainability point of view. And the Alban Muller acquisition is all about moving Sederma increasingly to 100% sustainable active, because that's where the market's going and growing. So let me stop there.

David Bishop – Director of Investor Relations

Thank you, Matthew. That completes the Q&A this morning, so I'll just leave Steve to wrap up.

Steve Foots – Chief Executive Officer

Yeah, thanks very much for your questions. It's a real shame we can't be with you to be in the room together and have a chat with you, but here we are, this is the second-best thing. So we're still alive and kicking. A really strong set of numbers for the group and it's in three areas, as we've talked about.

The underlying existing business is growing very well. The two acquisitions that we've acquired recently have given us a lot of knowledge and a lot of growth potential, and that's starting to demonstrate through the numbers.

And of course, we've got the Life Sciences in the form of Healthcare, you know, really rapid growth there from the first half. So, very pleased with the first half. Obviously, this is the start of Croda moving into a faster growth period. So let's stop there and hopefully next time we definitely see you in the flesh. So we'll see you in February. Thank you.

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