

Croda International Plc

# Half year 2020 results

23 July 2020



# Cautionary statement & definitions

## 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.

## Adjusted results

Unless otherwise stated, all performance data refers to adjusted results. These are stated before exceptional items, acquisition costs and amortisation of intangible assets arising on acquisition, and tax thereon. The Board believes that the adjusted presentation (and the columnar format adopted for the Group income statement) assists shareholders by providing a meaningful basis upon which to analyse underlying business performance and make year-on-year comparisons. The same measures are used by management for planning, budgeting and reporting purposes and for the internal assessment of operating performance across the Group. The adjusted presentation is adopted on a consistent basis for each half year and full year results.

## Constant currency results

All data is at reported currency rates unless otherwise stated. Reported currency results reflect current year performance translated at reported rates (actual average exchange rates). Constant currency results reflect current year performance for existing business translated at the prior year's average exchange rates and include the impact of acquisitions. For constant currency profit, translation is performed using the entity reporting currency. For constant currency sales, local currency sales are translated into the most relevant functional currency of the destination country of sale (for example, sales in Latin America are primarily made in US dollars, which is therefore used as the functional currency). Sales in functional currency are then translated into Sterling using the prior year's average rates for the corresponding period. Constant currency results are reconciled to reported results in the Finance Review accompanying these results.

Non-statutory terms are defined in the 'Alternative performance measures' section of the Finance Review accompanying these results..

The Core Business comprises Personal Care, Life Sciences and Performance Technologies.

# First half performance



Our sustainability commitment includes an ambition to significantly reduce our water use

# Strong business model delivers resilient performance

- Limited operational impact from COVID-19 pandemic
- Modest reduction in sales
- Resilient margin
- Healthy cash generation supporting continued investment
- Technology-rich Health Care acquisition
- 2020 interim dividend maintained at 39.5p

# Our response to COVID-19

## Top 3 priorities

## Treating all our stakeholders fairly

### 1. Health and Safety



Employees

No job losses,  
furlough or  
salary  
reductions



Customers and  
suppliers

Flexible  
payment terms

### 2. Performance



Local  
Communities

Financial  
assistance  
provided



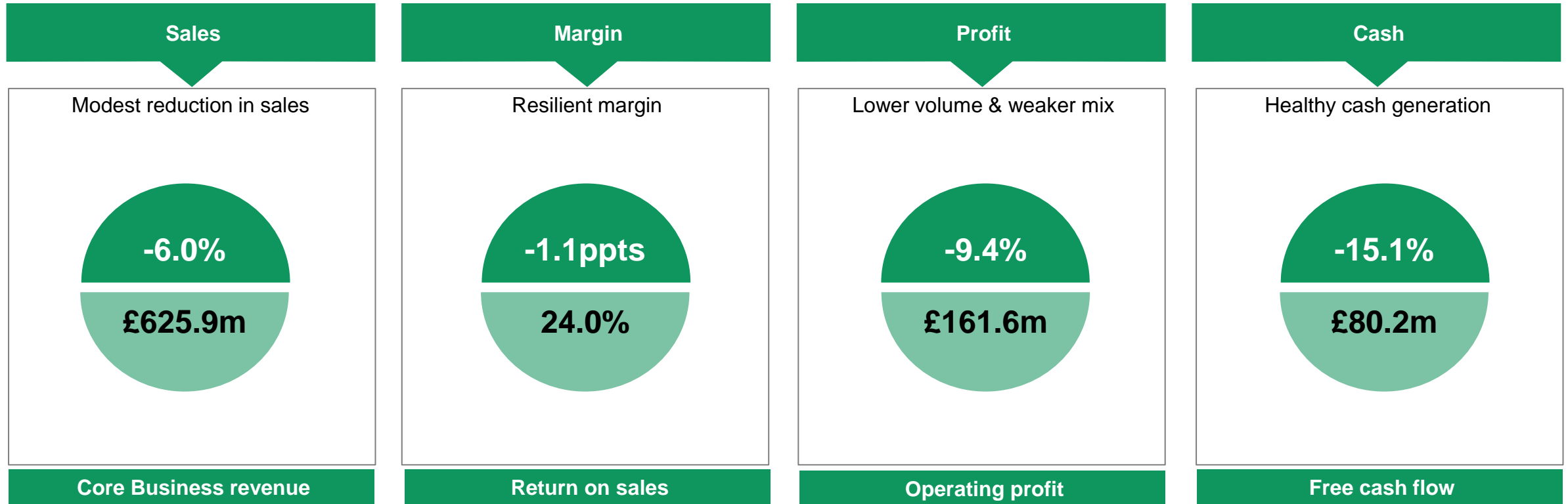
Shareholders

Paid final  
dividend

### 3. Planning ahead

Objective: Live up to our Purpose – using Smart Science to Improve Lives™

# First half 2020 – a resilient performance



Change in sales and operating profit in constant currency

# Sector performance led by Life Sciences

## Personal Care

- Solid Q1 – continuing positive trends from Q4 2019
- Significant impact on consumer demand from COVID-19 during Q2
- Accelerating customer engagement; encouraging recovery in China

## Life Sciences

- Limited impact from COVID-19
- Continued growth in higher value-add niches – profit & margin expansion
- Accelerating investment in organic and M&A opportunities

## Performance Technologies

- Slowing industrial demand; growth in home care & packaging
- Limited sales decline but operating leverage impact on profit
- Continued strategic focus on high-tech markets and reducing cyclical exposure

# Financial performance



Sea algae: we use this sustainably harvested algae in our ingredients to naturally improve skin hydration



# Resilient performance despite crisis impact

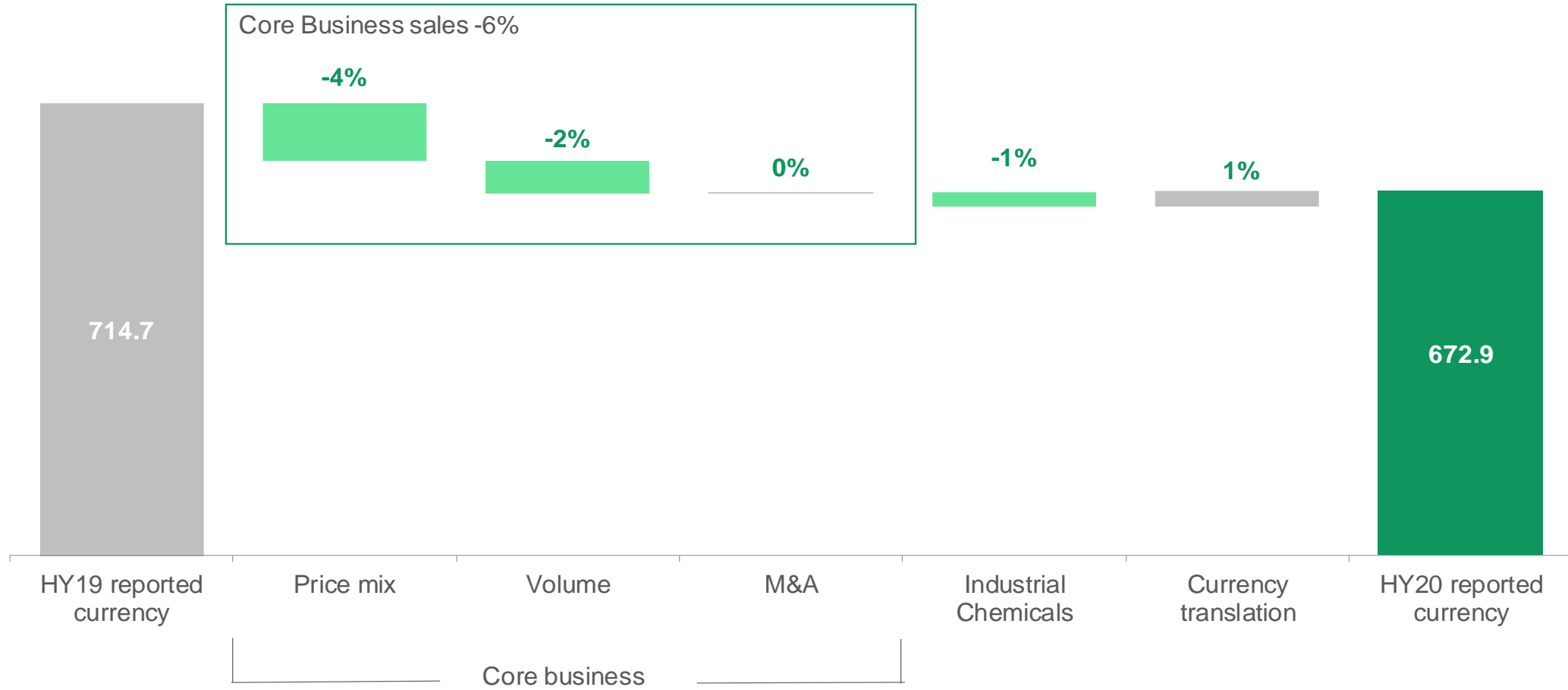
<b>Adjusted results, £m</b>	<b>2020 reported</b>	<b>2019 reported</b>	<b>% change</b>	<b>% change constant currency</b>
<b>Sales</b>	672.9	714.7	(5.8)%	(6.9)%
<b>Operating profit</b>	161.6	179.4	(9.9)%	(9.4)%
<b>Net interest</b>	(9.1)	(8.8)	(3.4)%	(4.5)%
<b>Profit before tax</b>	152.5	170.6	(10.6)%	(10.1)%
<b>Return on sales</b>	24.0%	25.1%	(1.1)%pts	
<b>Basic EPS</b>	88.8p	98.2p	(9.6)%	
<b>Ordinary dividend declared</b>	39.5p	39.5p	0.0%	
<b>Free cash flow</b>	80.2	94.5	(15.1)%	

# IFRS result includes delivery of 2019 cost saving actions

£m	2020 reported	2019 reported
Adjusted PBT	152.5	170.6
Exceptional items	(1.7)	0.0
Acquisition costs	(1.0)	(0.1)
Amortisation of intangible assets	(4.9)	(4.3)
Reported PBT	<b>144.9</b>	<b>166.2</b>
Basic EPS	84.1p	95.6p

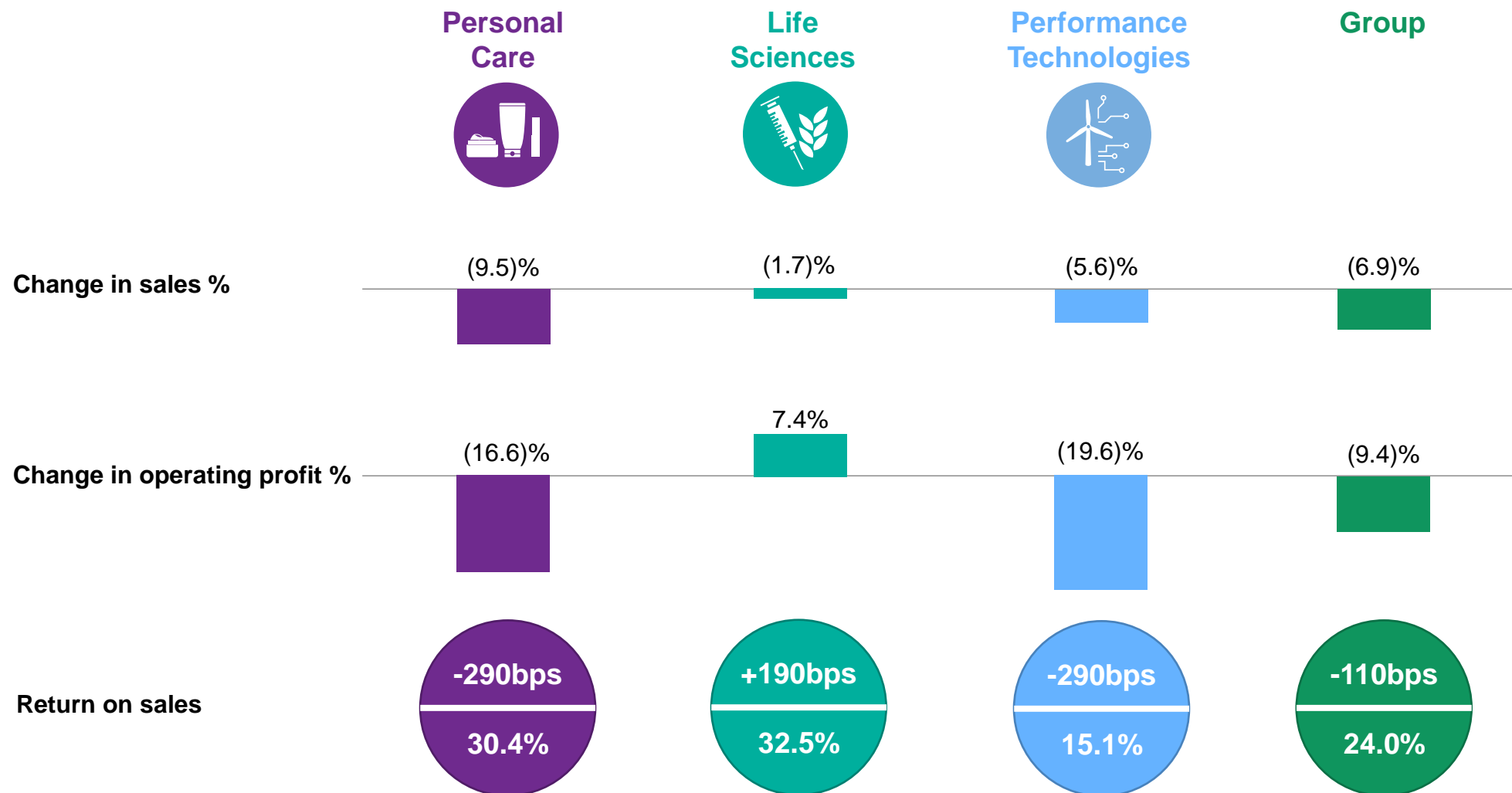
# Weaker product mix and limited volume reduction

Sales, £m



Change in sales in constant currency

# Sector performance led by profit growth in Life Sciences

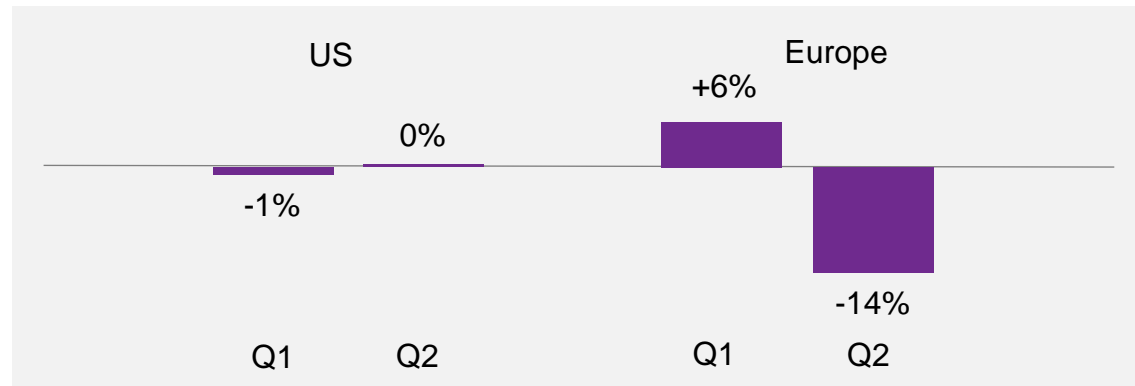


Change in sales and operating profit in constant currency

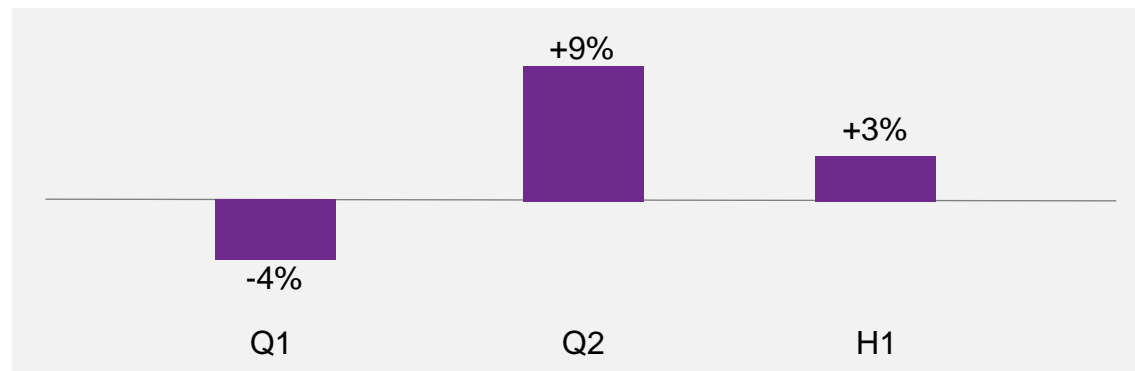
# Personal Care impacted by consumer lockdown



## Personal Care and Beauty consumer sales data\*



## Rebound in Croda Personal Care sales in China\*



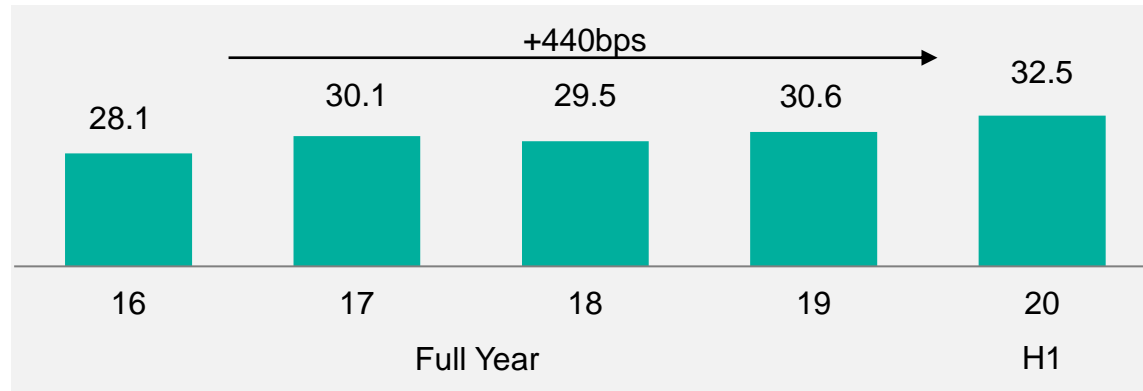
- Consumer markets significantly impacted by COVID-19; 6% volume decline
- Europe and Latin America worst affected
- North Asia recovery – China
- Consumer channel disruption in Prestige
- Expansion in digital customer intimacy
- Drivers unchanged – Strengthen to Grow strategy

\*Consumer sales data sourced from Exane: Europe: to 14 June 2020; US: to 28 June 2020. \*Croda sales in constant currency

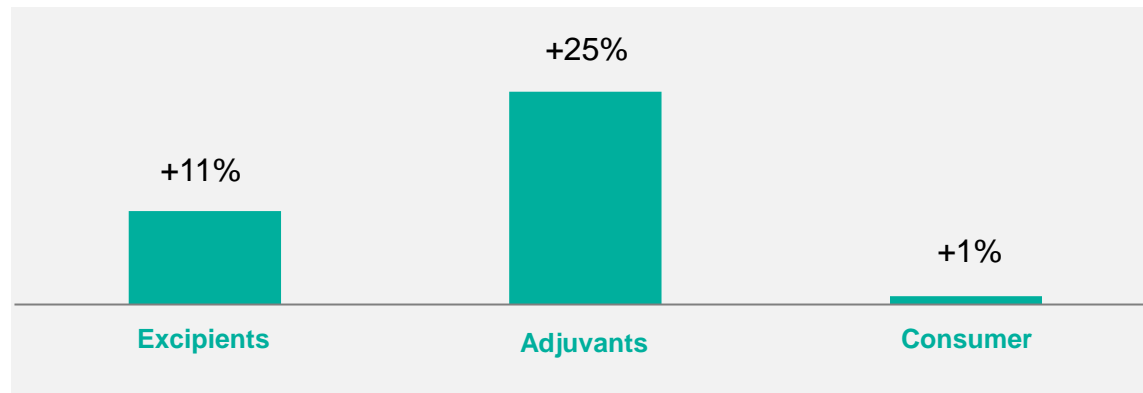
# Continued margin expansion in Life Sciences



## Strengthening return on sales, %



## Sales growth in high value-add Health Care niches



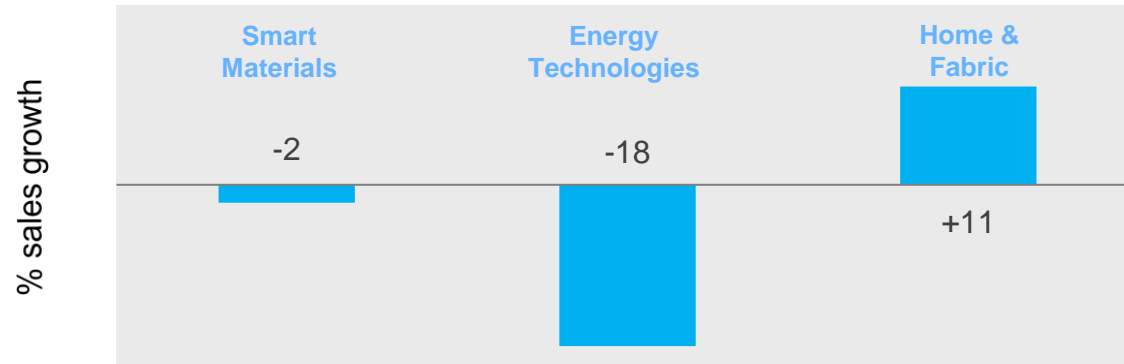
Sales growth in constant currency

- Limited COVID-19 impact; volume up 2%
- Strong demand for speciality excipients and vaccine adjuvants – high value niches
- Tough comparator in Crop – weather / phasing
- Innovation-led recovery in Seed
- Expand to Grow strategy; building broad-based drug delivery business

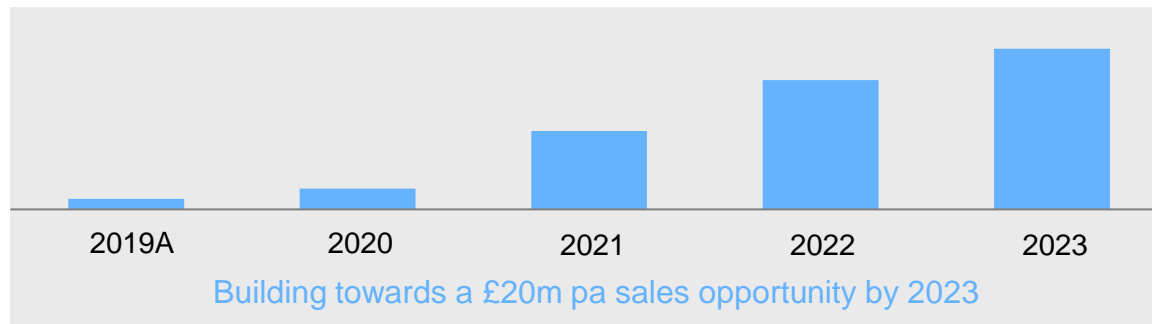
# Limited sales impact in Performance Technologies



## Weaker industrial demand contrasts with consumer strength



## Forecast sales of Coltide Radiance™

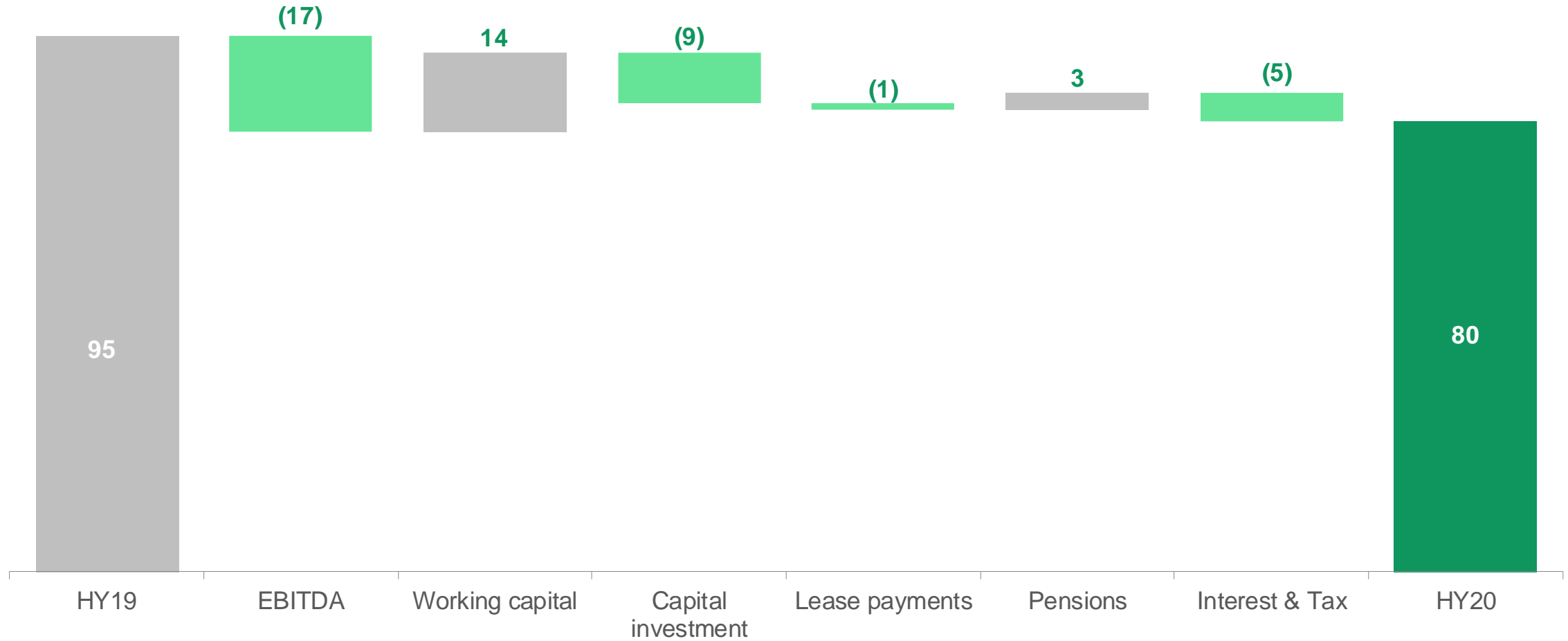


- Progressive weakening in industrial demand
- Strong sales in hygiene and packaging
- Overall volume 2% lower
- Profitability impacted by operating leverage / production constraints
- Refine to Grow strategy
  - Innovation success – Coltide Radiance™ doubles life of fabrics
  - Investing in Asia
  - Sustainability strength – Eco contracts secured

Sales growth in constant currency

# Healthy cash generation supporting continued investment

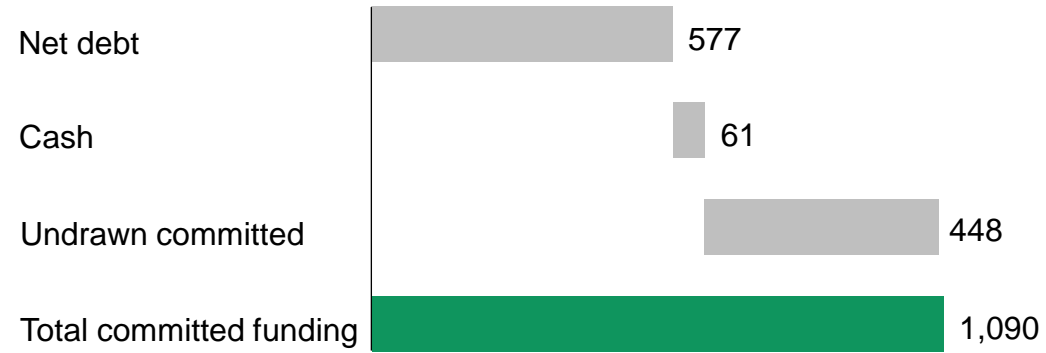
£m



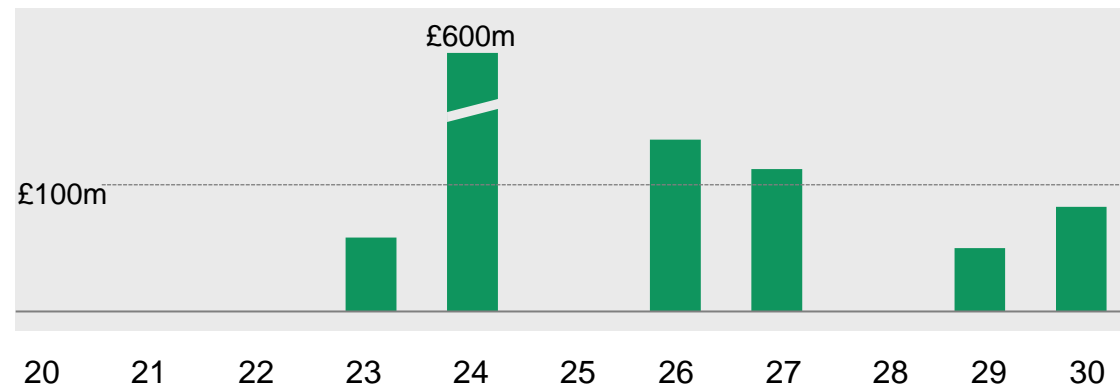


# Strong balance sheet and liquidity maintained

## Significant committed headroom+, £m ....



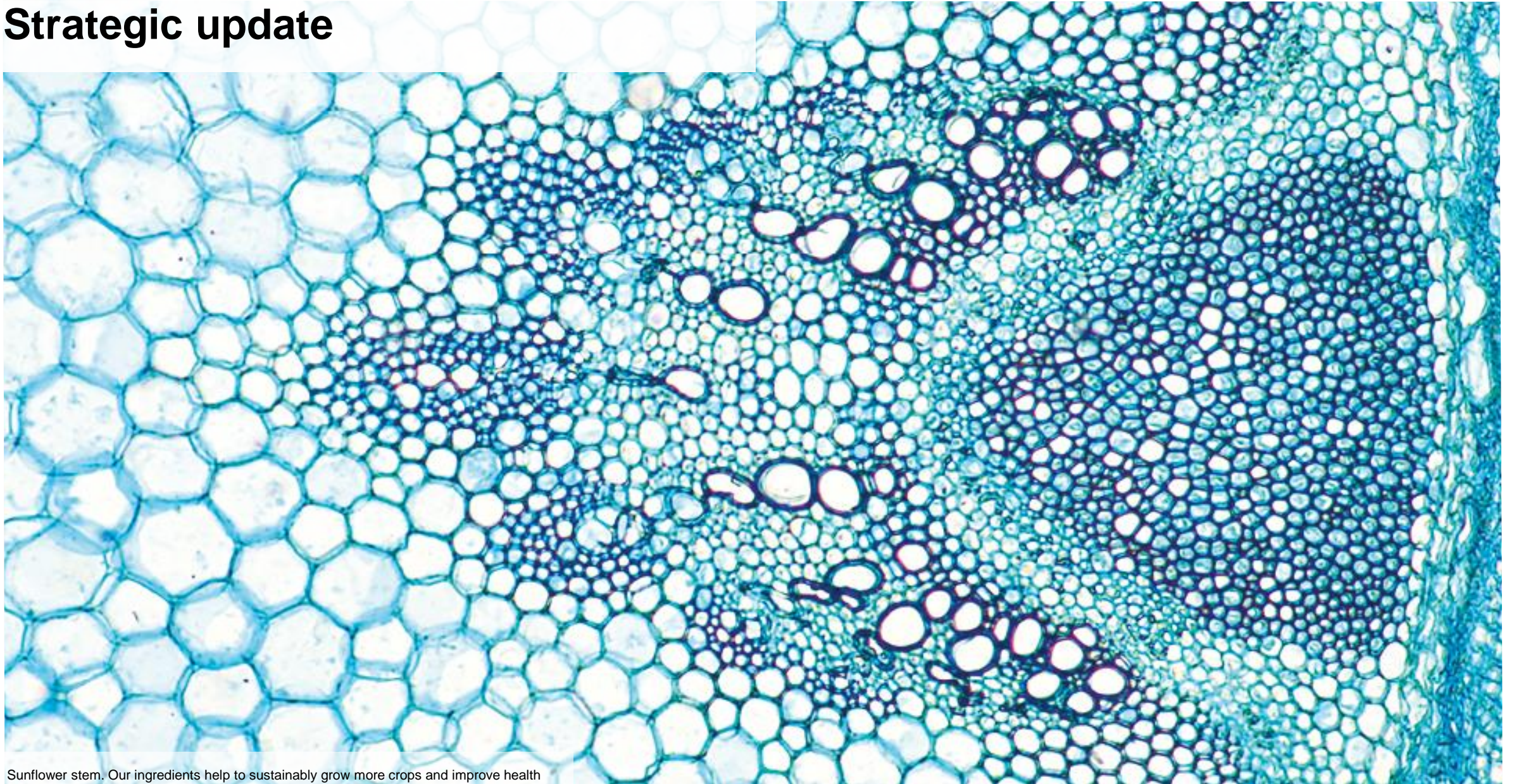
## ...with no maturities before 2023\*



- Strong business model demonstrated
- Leverage 1.5x EBITDA
- Significant committed headroom and long maturities
- \$200m acquisition facility for Avanti
- Downside scenario modelling shows continued robust liquidity and debt headroom

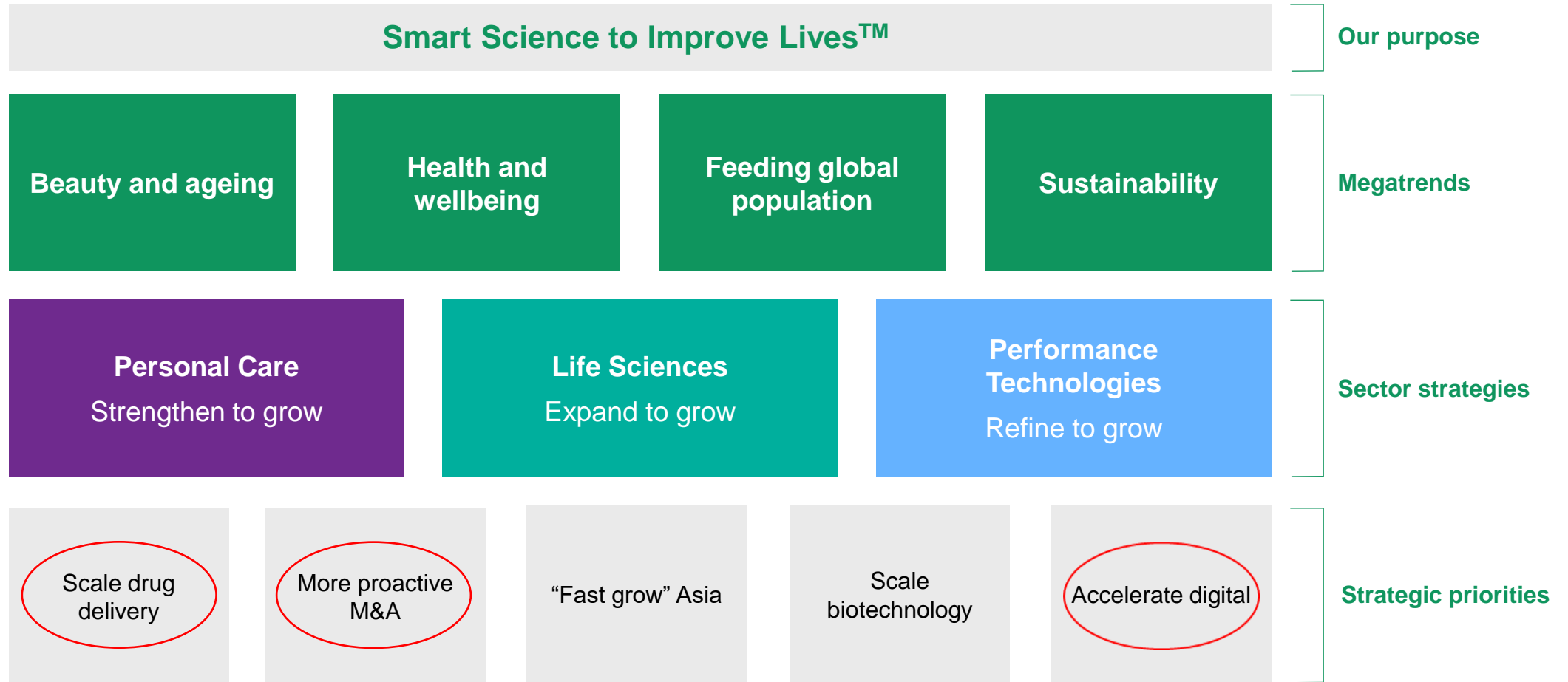
\*At 30 June 2020. \*Excluding leases

# Strategic update



Sunflower stem. Our ingredients help to sustainably grow more crops and improve health

# Our strategic priorities



# Accelerating digital to increase customer intimacy

## Group digital activity

	% change H1 2020 / H1 2019
Webinars hosted	+196%
Webinar attendees	+396%
	% change Q2 2020 / Q1 2020
Live Chat	+67%
New digital business opportunities	+32%

- Digital Marketing Centre of Excellence established
- Personal Care website for Indie customers launched
- New China website launching in 2020

## China case study

- Digital users in China spend average of six hours online per day
- Launched Croda WeChat account with LiveChat capability
- Up to 65,000 participants in each live-streamed industry event

2020 中国化妆品研发趋势大会·活动页面·3月18-19日

Livestreamed Personal Care forum –  
“Solutions for Sleep-deprived Skin”

PChI 2020 芳典奖颁奖云盛典

Livestreamed event on Majestem® Drypure™ –  
a plant cell culture extract for powder cosmetics

# Scale drug delivery

## Key trends



Growth in biotech providing significant formulation challenges



Biologics requiring injectable delivery

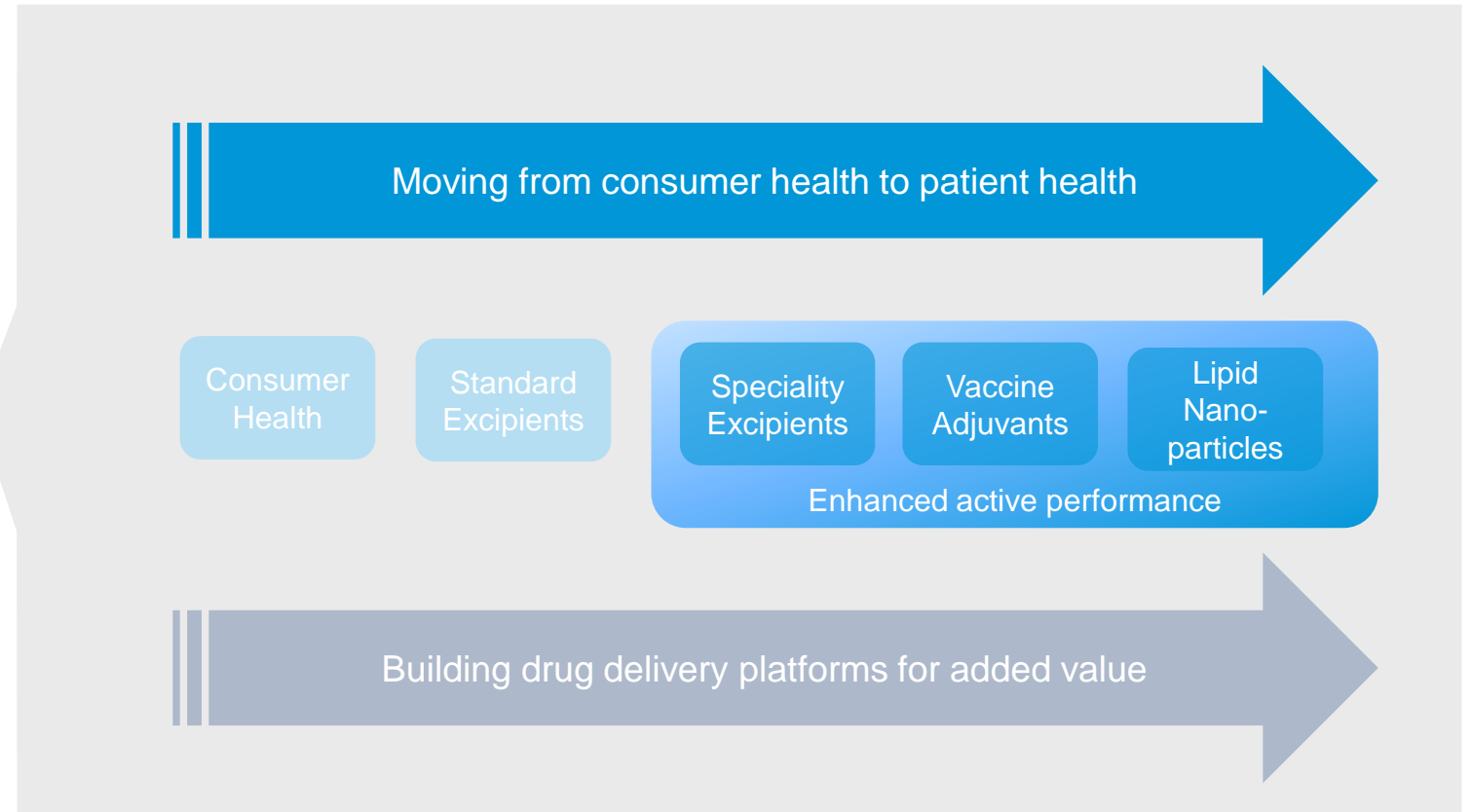


Development of next generation therapeutics



Concern around drug safety and integrity

## Capturing increased value across the Health Care continuum



# New drug delivery – creating increased opportunities

## Injectable delivery



Speciality excipients for sensitive, challenging biologics

## Gene therapy



Polar lipids for vaccine and oncology applications

## New niches



Bioprocessing aids for biologic actives manufacture

## Respiratory diseases



Inhalation systems offering targeted solutions

## Increasing geographical footprint



Doubling capacity at GMP\* pharmaceutical facilities

## More proactive M&A



Aseptic manufacturing

\*GMP is Good Manufacturing Practice – the highest regulatory and quality standard for pharmaceutical production

# More proactive M&A – Avanti

## Avanti Polar Lipids, Inc.

- Pharmaceutical expertise
- 150 employees; 100+ scientists
- 3,000 customers
- World-leading research products portfolio
- GMP\* clinical development services

## Strategic rationale

- Doubles R&D capability
- Rich in IP
- Complementary technologies and scale
- Extensive pharmaceutical partnerships
- Enhances presence in largest pharma market

\*GMP is Good Manufacturing Practice – the highest regulatory and quality standard for pharmaceutical production



## Double digit % sales growth



# Summary

- Resilient half year performance, proving Croda's business model
- Reflects portfolio breadth, global footprint and flexible manufacturing
- Healthy cash flow driving continued investment in future growth
- Technology-rich acquisition extends drug delivery capability
- Strong balance sheet, low leverage and robust liquidity

# Outlook

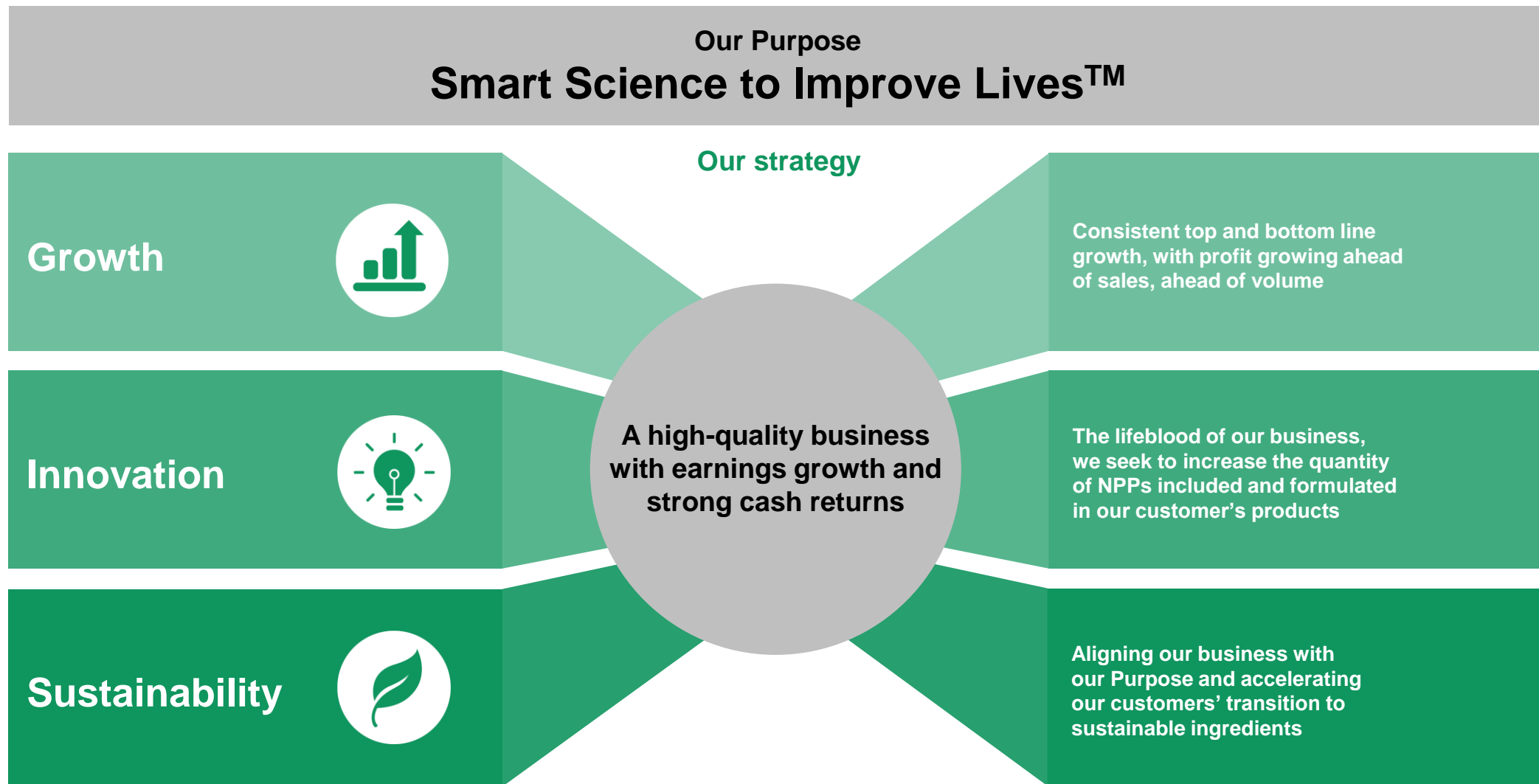
- Following a challenging Q2, trading has stabilised; timing of recovery remains unclear
- Life Sciences will benefit from phasing of Crop Care sales and opportunities in Health Care
- Consumer markets rapidly impacted by lockdown; expected to recover more quickly than industrial markets
- Group margin & cash generation expected to remain robust
- Strategy remains unchanged; focused on accelerating future growth



# Supporting data

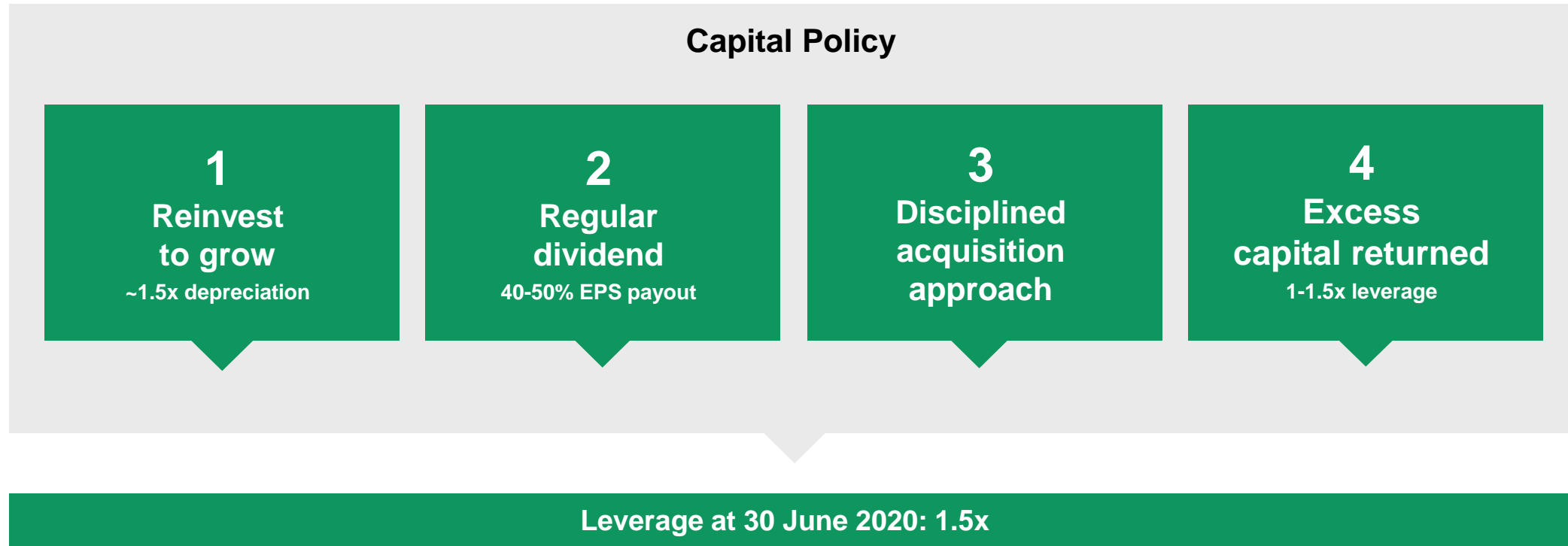


# Strong business model; strategy remains unchanged



NPP is New and Protected Products

# Capital allocation model



Leverage excludes retirement benefit deficit

# Foreign exchange translation

- First half currency translation impact limited – small benefit to sales, marginally adverse on profit
- H1 2020 average rates:
  - US\$1.261 (H1 2019: US\$1.294)
  - €1.145 (H1 2019: €1.145)
- Average annual impact:
  - £0.7m per \$cent pa
  - £0.6m per €cent pa
- US\$ and € represent 65% of currency exposure

# Retirement benefit analysis (IAS19 basis)

£m	31 Dec 2019	30 Jun 2020
Market value of assets	1,390.8	1,509.5
Value of liabilities	(1,465.8)	(1,532.1)
Deficit pre tax	(75.0)	(22.6)
Deferred tax	14.9	6.2
Deficit post tax	(60.1)	(16.4)

CRODA