Croda International Plc

Results for the year ended 31 December 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. It's great to be with those of you who've joined us in the room, and a big welcome to all who are on the webcast as well. As ever, I am going to go through some of the highlights of the year before handing over to Jez to go through the results in detail. I will then come back to talk about the key trends driving growth in Croda and explain how we are well positioned to respond to and benefit from them.

2021 was a record year for the business, an excellent performance demonstrating the benefits of executing our strategy with agility and speed in a challenging, fast-moving market environment. Investments and acquisitions have driven strong progress across all areas of the business, leading to the best sales, profits and margins we've ever seen, significantly ahead of last year and well ahead of 2019.

High inflation relating to raw materials, energy and logistics was a significant headwind and we have leveraged our strong operating model and pricing capability to control a steep rise in costs, one of Croda's unique advantages. Innovation is at the heart of everything we do as you know - it defines Croda, so very pleasing to see NPP grow so strongly in the year.

Acquisitions have boosted our growth. Avanti has established our Lipid Systems platform which achieved $200m of sales primarily to our principal vaccine customers. And our F&F business Iberchem delivered an encouraging performance with integration on-track to achieve the synergy potential we talked about when we acquired it. We have accelerated investment in the business to capitalise on the enormous opportunities that we see to drive future growth.

So overall, strong and agile execution of our strategy. In the space of 18 months, we have acquired Avanti and Iberchem to strengthen our core business and agreed to sell the majority of our industrial businesses. Croda is starting to look very different as we move closer to being a pure-play Consumer Care and Life Sciences company.

Turning to some of the headline financials, we delivered a very strong increase in both sales and profits. Adjusted sales grew 36% reflecting excellent organic growth in the core business and the impact of acquisitions, slightly offset by adverse currency. Profits grew substantially, testament to our sustained focus on high-value, high-margin niche areas of the market.

Adjusted earnings per share were 43% higher, underpinning the Board's proposal to raise the full year ordinary dividend by 10%, delivering thirty years of consecutive dividend increases. And finally, we grew organic capital investment by over 30% to nearly £160m which will drive forward our strategy to scale consumer, health and crop care businesses leading to more consistent sales growth and even stronger profit margins in the years ahead.

We are seeing strong structural growth, well ahead of pre-pandemic levels. The graph top left shows double digit underlying growth in each sector. Top right shows reported operating profit is up 38% and below you can see how EPS has progressed to be 35% higher. And there has also been a marked increase in NPP, increased from 28% to 37% as we become a more knowledge intensive company.

Underlying growth in 2021 was strong across the board. Whilst Health Care was the standout performer, Crop Protection also had a good second half, contributing to the 40% increase in sales in Life Sciences. Consumer Care delivered strong sales throughout the year and Performance Technologies strengthened in H2 driven by improved demand in its more cyclical end markets. All regions also delivered impressive sales growth with the consumer recovery strongest in North America.

I mentioned inflation a moment ago and this slide helps to illustrate both the challenge and our ability to successfully navigate it. 2021 saw the highest rise in raw material costs in a decade, up by 17% on an underlying basis. Energy costs rose significantly with freight also rising by 25%.

Underlying sales volumes grew 9% reflecting very strong trading. We fully recovered the impact of higher input costs, demonstrating the continued strength of Croda's operating model and, alongside an improving product mix, we achieved underlying price/ mix of 17%. The consequence of strong demand and faster growth was record profit margins, increasing to 24.8%.

Our non-financial metrics are just as important as our financial results. Last year we became only the third chemical company in the world to have our 1.5°C target verified by the Science Based Targets initiative. Our objective is to be net zero by 2050 and to ensure that we are investing in our site decarbonisation roadmaps. Whilst the divestment of PTIC will make us less carbon intensive, we will re-base our climate targets to maintain the challenges that we have set ourselves.

We are improving diversity and inclusion, achieving both targets of the Hampton-Alexander and Parker Reviews at the start of this year. The proportion of women in leadership across the wider business also increased to 36%. We have established the Croda Foundation through which we are providing £1m of funding annually. This year we've given an additional £2m to reflect the progress in our Health Care business. The first projects will help deliver vaccinations to over 50 million people in India, Brazil and Uganda.

Our sale of the majority of PTIC, agreed in December, was a significant strategic step for the business for lots of reasons. On completion, Croda will become a more carbon light business. We will also have more IP as NPP sales are close to half of total sales in Consumer Care and Life Sciences based on last year's numbers. Our increased exposure to faster growth markets will translate to faster top-line growth and increased margins. And we will be more focused and in an even stronger position to drive consistent, superior returns in the future.

More from me in a moment, but now over to Jez for a detailed financial review.

Jez Maiden – Group Finance Director

Thanks Steve and good morning everybody.

As Steve has said, 2021 has seen a record financial performance for the Group. Sales were up 36% in reported currency at almost £1.9bn and increased by 43% in constant currency. Sterling's strength means that reported currency numbers are about 7 percentage points below constant currency. Adjusted operating profit increased by 47% to £469m. With a better product mix, and volume growth, return on sales increased by 180 basis points to 24.8%. Adjusted profit before tax was £445m, up almost 50% on prior year.

The tax rate reduced to 21%, with a one-off benefit from settlement of a previous uncertain tax position. It is expected to revert to around 25% in 2022. Adjusted earnings per share rose 43% to 250p, with the proposed full year dividend increased to 100p, up 10% per share and 14% in cash terms. This is the 30th successive year of dividend growth, while earnings cover is at the lower end of our range to pay 40-50% of adjusted earnings.

Free cash flow reduced by 13% to £154m, due to higher capital investment and working capital build, which I will explain later. Adjusting profit items charged in the period totalled £34m. These reflect an increased charge for intangible amortisation following recent acquisition activity. Exceptional items netted to close to zero. Profit before tax on an IFRS basis was up 53% to £412m.

The left-hand chart shows the sales bridge for 2021 versus 2020. Underlying sales from the existing Croda business pre-acquisition benefits were up 26% in the year, of which price/mix was +17% and volume was 9% higher. We are particularly pleased by this volume growth, as it demonstrates the strength of the existing business. Price/mix includes the recovery of the inflationary costs, but with a significant benefit as well from product mix, reflecting the growth of high value business in Beauty Actives and Health Care especially. The first year of acquisitions added 17% to Group sales, giving a 43% increase in constant currency sales.

The right-hand chart shows you the impact of lipid systems growth. This has had a meaningful impact on the 2021 performance, and it would be easy, but incorrect, to conclude that the overall record result has been driven solely by this. Of the total constant currency growth of 43%, 10 percentage points have come from Avanti and the lipid systems platform. 20 percentage points has been delivered from Croda's existing business, reflecting strong growth in Consumer Care, the rest of Life Sciences and in Performance Technologies, and acquisitions in Consumer Care added 13 percentage points of growth. So, broad-based.

This broad-based growth across Croda's existing businesses is also reflected in the profit bridge. The underlying business delivered £116m of profit growth. We saw growth across all sectors and businesses. We are now trading well ahead of pre-pandemic levels across the existing Croda business. Acquisitions are shown separately up to the first anniversary of their purchase. Profit from acquisitions added £58m in 2021 and currency translation reduced the overall reported profit by £25m.

Turning now to look at how each sector has contributed to this growth.

Consumer Care sales grew by 45% whilst adjusted operating profit was 29% higher. The lower profit growth reflects the fact that Iberchem operates at a lower margin than the Personal Care business, and, as a result of this dilution effect, return on sales was approximately 25%. The standout performer was again Life Sciences. Sales grew in 2021 by 46%. With a stronger product mix, adjusted operating profit rose by two thirds and return on sales reached 36%. Performance Technologies saw a strong sales recovery, with sales 18% up, all organically driven. The benefit of greater volume on operating leverage saw adjusted operating profit 32% higher and return on sales recovering to around 15%.

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 the Iberchem fragrance and flavours business. Personal Care saw a strong rebound in sales in 2021, with underlying

sales now 15% above the pre-pandemic level of 2019. Growth was strongest in the ‘high end’, IP-rich engine of Beauty Actives, including Sederma, with sales up 29% on 2020.
After a challenging couple of years, the Beauty Care business saw a progressive improvement in demand for skin care, sun care, cosmetics and hair care, with sales 13% higher. The business is focused on sustainability-driven innovation, including products from our US ECO plant.

After strong demand for hygiene products in 2020, Home Care sales growth slowed to 8%. Fabric care and ECO products are the key drivers of growth here. The Iberchem business is proving to be everything that we hoped. The innovation in particular is very exciting. Integration is on track and the first cross-selling synergies are being delivered. 2021 saw an encouraging performance, despite a combination of slower growth in Covid-impacted emerging markets and a lag in full inflation recovery, and profit was in line with our acquisition plan.

Looking at the bottom chart, with Beauty Actives sales strong, product mix improved in Consumer Care. Price/mix was 13% higher and volume was up 5%. Acquisitions added 35 percentage points. The Consumer Care sector is well set to deliver our objective of mid-single digit percentage sales growth, before inflation recovery.

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.

2021 saw sales up 46% and adjusted operating profit 67% ahead. Within this, Health Care delivered an outstanding performance, with rapid expansion in all three patient health platforms. Sales of vaccine adjuvants and speciality excipients were up over 40%. Meanwhile, the lipid systems platform saw sales of approximately $200m, for Covid-19 vaccines. Crop Protection delivered double-digit percentage growth year-on-year in what was a great year for agricultural demand globally. Growth in Seed Enhancement was more subdued, however, due to slow markets in Europe and North America.

The growth of Health Care and the top end of Crop is driving a focus on value, not volume. Innovative products sell at much higher prices and the volumes are measured in kilos, not tonnes. As a result, price/mix added 35 percentage points to sales growth, whilst volume rose by 6 percentage points. The broad-based growth in the sector can be seen in the right-hand chart, with an overall contribution of 17 percentage points from Croda’s existing business, supported by 37 percentage points from the Avanti acquisition and the broader lipid systems platform.

Life Sciences is expected to see high single digit percentage sales growth in the mid-term, excluding inflation recovery.

In Performance Technologies, 2021 saw a continued improvement in sales, driven by a recovery in end markets and sustainability-driven demand. Margins also improved due to a better business mix and operating leverage. Sales increased by 18%, equally split between price/mix and volume.

In December, we reached agreement to sell just over three quarters of the combined Performance Technologies and Industrial Chemicals, or PTIC, business. There was no impact on 2021 results from this transaction, other than an exceptional charge for advisory costs incurred in the year. However, had the divestment occurred at the start of 2021, we estimate that sales in PTIC would have been around £360m lower and the impact on adjusted operating profit from the divestment and resultant stranded costs just short of £60m per annum. We are now working through the separation process and expect completion during the summer of 2022.

We have already begun the redeployment of capital from the PTIC divestment. In 2021 we increased our capital spend to almost £160m. We are following our ‘buy and build’ strategy, of acquiring into exciting technology adjacencies, like vaccine adjuvants and lipid systems, at sensible multiples and then expanding them organically through capital investment, reducing the risk and avoiding significant goodwill, thereby accelerating returns.

We invested £70m in Health Care in 2021. We also invested in expanding our range of sustainable technologies in Consumer Care. And we began an investment in botanicals and fragrances as part of our Fast Grow China strategy.

The other key cash outflow was a £100m working capital build. This reflected an increase in raw material costs and selling prices, higher sales volume and tactical increases in inventory to mitigate the global distribution challenges that we faced, similar to many other companies. The impact of higher values of working capital at a constant level of days cover added almost £70m, as you can see in the right-hand graph, while the increase in contingency stock added a further £45m. This will reverse as price increases and distribution challenges normalise. As a result, free cash flow was £154m, £23m behind 2020.

We are following our long-established capital allocation policy which guides the way we deploy capital. Firstly, we are investing in organic growth whilst increasing the ordinary dividend, as part of a long-term commitment on returns to shareholders. We invested in the acquisitions of Alban Muller and Parfex in Consumer Care.

Closing leverage was 1.4x EBITDA, within our target medium term range of 1 to 2 times. We will continue to follow this policy, investing for the future, increasing the regular dividend and returning excess capital as and when identified.

I will now hand you back to Steve to update you on our strategic priorities.

Steve Foots – Chief Executive Officer

Many thanks Jez.

Croda’s strategy is all about moving to faster growth markets. You have heard this from me many times. We are focused on those markets that can value our innovation through high margins, are less cyclical as well as capital and carbon light. We will combine our leadership in sustainability with market leading innovation to deliver profitable growth.

We have done some of our best strategic work during the COVID-19 pandemic, with the Board and executive committee recently finalising our strategic plan for the next 5 years.

Our strategic priorities are shown on the outer rim of the circle. In addition to expanding and strengthening our sectors, we will scale biotechnology and invest for faster growth in China, where the personal care market is growing at 9% a year. We will continue to look to acquire disruptive technologies and also continue to do the basics brilliantly to increase both our responsiveness to customers and engagement from our employees.

Today, consumers care more and more about their impact on the wider environment. Our customers want us to deliver novel sustainable ingredients that are ethically sourced and produced from lower-carbon manufacturing. That is how we think about sustainability and the opportunity.

And we are ramping up innovation, it is our lifeblood and why we have invested 50% more in R&D resource this year and are taking bigger bets with more ambitious projects. At the heart of our strategy is our purpose, Smart science to improve lives, which will continue to guide the strategic choices we make.

Across the markets we serve, there are two mega technology trends driving our future. The first is this demand for sustainable ingredients - consumers want products made from natural and ethically sourced ingredients.

The second is the move towards biologics in Crop Care and Pharma which offer transformational opportunities for Croda which I will come onto shortly. Big opportunities presenting themselves in biopesticides and biopharma which is really exciting.

We have 8 growth businesses, supported by Industrial Specialities. Within Consumer Care, most of you are familiar with our Personal Care business where we deliver thousands of products to thousands of customers, all with rich IP.

We have 8 businesses like that now, run by dedicated management teams with their own R&D capability that is customer led. They all supply critical ingredients at low inclusion levels, often selling in test tube quantities rather than tanker loads, replicating the model we have in Personal Care. All eight businesses have excellent growth prospects and we expect each of them to deliver sales growth of 1 and a half times GDP, as a minimum.

Turning to each of these areas in a little more detail, in Beauty Actives we are already the market leader in three technologies of the future - peptides, naturals and biotech, all of which are seeing higher growth than the global beauty market.

Today, our genre-defining peptides, such as Matrixyl, are formulated into 80% of all new anti-ageing products containing a peptide. We are developing next generation active ingredients, including peptides, using synthetic biology.

80% of our Beauty Actives R&D pipeline is ‘green’. We acquired Alban Muller, which develops innovative botanical ingredients such as an anti-inflammatory made from pomegranate. We have also introduced our botanical ingredients into China and acquired land for a new facility which we expect to build in 2023.

A third of our active products are biotech-derived, the most well-known of which is Majestem for skin and neck lifting. We acquired Nautilus in 2018, a technology-rich marine biotech business which has recently launched Venuceane, an active derived from marine micro-organisms, to repair sun damage.

We are winning with sustainable ingredients in both Beauty Care and Home Care as well. We are the market leader in metal oxides used as sustainable mineral UV filters for sun creams, and have invested in Entekno which has launched a range of high protection mineral products with additional non-whitening benefits.

In Sustainable surfactants, we are displacing petrochemical competitors in formulations with our broad range of ECO products. In 2021 we secured a 3-year contract with a major beauty brand covering 6 ECO surfactants for high end skin and hair care.

In other areas we are also seeing a renaissance in our range of sulfate-free surfactants which meet consumer demand for ‘clean’ beauty products, with sales doubling over the last 4 years. And in Home Care with the big move to low temperature washing cycles we are providing the biopolymers for the new, improved Comfort fabric conditioner that so far has been relaunched in 30 countries around the world.

In our F&F business, Iberchem, we are on track to deliver the €48m of annualised revenue synergies by 2025. We are leveraging our combined sales network, with ten target countries identified, and opportunities across customers of all sizes including major brands, regional dynamos and indies. In Brazil, a new Iberchem business and R&D laboratory have been established at an existing Croda site and is delivering its first sales.

This year, we also acquired Parfex which creates fragrances principally for premium personal care and fine perfumery markets. We are leveraging their natural raw material base. All part of the plan to capitalise on the fast growth opportunities for Ecocert-accredited products; we doubled sales of these product lines during the year.

Turning next to Crop Care, we have talked to you a lot about the traditional crop care market on the left-hand side of this slide, a big market, with compound annual growth of 3%. An existing partner to the major crop science companies, we have successfully increased sales to medium-sized and smaller customers who now account for 50% of sales.

More exciting is the move into Biopesticides. Whilst it is currently a smaller market, it is growing rapidly. We are now increasing our innovation for our next generation delivery systems for microbials and RNA.

Sustainability trends are driving Seed Enhancement, where we have secured our first customers for seed coatings that are free from micro-plastics. We have recently opened an innovation centre in Brazil. This is a state-of-the-art facility, including formulation, microbiology, and seed treatment laboratories.

And keeping the best to last, let's talk about moving to biopharma in our patient health business. As you know, our drug delivery capability is founded on three world class technology platforms, all of which meet the need for specialist delivery systems for biopharma applications and where we see compelling opportunities for future growth. I will talk about our pipeline shortly.

Just as a recap, growth in excipients is being driven by expansion in injectable drugs using biological actives which dominate new drug launches. The opportunity here is vast, extending to the newest biologic drug innovations such as monoclonal antibodies, more than 5,000 of which are currently in clinical trials.

Our adjuvants provide the important accelerator to a range of new global vaccines. The market for prophylactic vaccines has more than doubled in the last two years. In addition, more than 1,500 clinical trials are currently underway for therapeutic vaccines.

Lipid systems offer significant potential beyond COVID-19 as the preferred delivery system for the developing science of nucleic acid therapeutics. The mRNA market alone is expected to reach $35bn over the next 15 years, and 180 clinical trials are already underway for applications across preventative and therapeutic vaccines, and therapeutic drugs. Three world class platforms, all of which are offering great opportunities for Croda.

Turning to the pipeline, it is getting bigger, much bigger. In 2021, we secured 130 new customers and 250 new clinical and pre-clinical programmes, two thirds of which were for non-COVID-19 applications. In terms of providing some colour on the variety of programmes, we can say that oncology programmes make up the majority of our speciality excipients pipeline as well as immunosuppressants for diseases such as diabetes.

In vaccine adjuvants we are becoming more involved with the fight against WHO-listed diseases. We are now contributing to vaccine projects to combat 15 of the 24 priority diseases including new projects for HIV and Ebola.

And in lipid systems, we are involved with multiple projects with multiple customers. We have relationships with over two thirds of companies developing mRNA vaccines and drugs, so we are very well placed. There are the hallmarks of a terrific new Croda business, probably the most exciting thing I have seen in my career to date.

Given the rapidly developing pipeline, it should come as no surprise that we are putting our money where our mouth is and investing ahead of the future growth. Our preferred approach is to adopt a 'buy and build' model, securing new technology platforms and know-how through modest acquisition spends then building site expansion from within.

Overall, we have invested more than £100m in the last two years, including £70m in 2021, with a similar amount committed in the future. In Speciality excipients we have doubled capacity in the US. We are also expanding in Asia, investing £15m to increase our capacity there. In adjuvants, we have doubled capacity at our site in Denmark. And for Lipid Systems, we have doubled the number of employees at Avanti, with £35m of investment to double capacity at their Alabama site. This has been complemented by £20m of investment to create a new scale-up capability in the UK.

These are already some of the highest returning investments in our portfolio and we are confident that this trend will continue. In addition, we have increased our people resource by 40%. So, lots of progress and all part of our plan to build an unbeatable global drug delivery capability with three world class technology platforms.

So finally coming to outlook. We expect to see continued underlying growth in the year ahead, driven by robust consumer demand, raw material price increases and growth investments, offsetting any further customer destocking. As guided to previously, we expect Lipid Systems to be at a similar level to 2021. And margins will remain strong due to an increasing proportion of sales from higher value add solutions.

In summary, it has been an outstanding year for Croda with strong financial and strategic progress. We are ahead of pre-pandemic levels and demonstrating our ability to navigate the high inflationary environment that has ensued. We are more knowledge intensive business, focused on higher growth and higher return markets, in a stronger position to deliver more consistent sales growth and stronger profit margins in the future. It is an exciting time for Croda, of that there is no doubt.

Now, Jez and I are very happy to take your questions, so over to you.

Telephone operator

If you'd like to ask a question from the phone lines today, please press * followed by 1 on your telephone keypad.

Charles Eden (UBS)

Thank you very much. You know, two questions from me, please. You mentioned strong margins in Life Sciences in '22, could you help us define 'strong' if possible, please?

And then, secondly, you mentioned raw material inflation. No surprise. Can you help us what that looks like for Croda in '22 and if there's any variants between, I guess, core Croda now, so Consumer and Life Sciences, and what it might be, including PTIC? If you could break that out? Thank you.

Steve Foots – Chief Executive Officer

I'll do one and Jez can do two.

Yeah, I mean, on the margins, you know, the Life Science margin's come off in the second half. You've seen that. But it's all to do with the increase in numbers that we're seeing and the increase in capital we're putting in the business.

So, yeah, I'll come to back to answer your question in a minute, but, you know, Avanti, particularly, we started with 125 people in Avanti. We've now got nearly 300 people. And the model that we're adopting is that's a pre-clinical machine. It's sending out samples at a ferocious rate right across the spectrum to pharma companies. So, we're in a lot of pre-clinical programmes. And, as anybody knows in the pharma industry, once you're in pre-clinicals then, you know, your job's nearly there, nearly complete, because we should roll into the clinical one, two and three programmes with the support we've got from pre-clinical relationships that we've got.

So, the most important thing is making sure that we're responding quickly to new molecules, existing molecules and synthesising things in a slightly different way. So, the lipid system market needs slightly different products, you know, so a lot of these clinical programmes we've got, not just the lipid systems, probably multiple products, slightly different products for multiple customers. So, there isn't one standard product that serves it, so there's a lot of craft needed from our Avanti team to make sure that we are adopting the right products in the pre-clinical programme. So, we've put a special emphasis on that and, you know, you've seen that margin come off in the second half.

I think the way we look at it, that's stabilised now because we've put a lot of those people in, and we're talking about 35% margins for Life Sciences this year on an ongoing basis. Outside of lipid systems, the growth is still at the higher margin area, so you would expect that margin increase to continue. So, we're not seeing, sort of, a deterioration in margin which is uncontrolled. You know, it's all targeted for growth because of our confidence in the growth.

There's a little bit of depreciation in there coming off some of the assets, and actually, to a smaller degree, crops had a great second half as well. So, there's a bit of dilution in crop in there as well. So, there is absolutely no problem with margins in Life Sciences. Far from it. You're just seeing a stabilisation once we've put a lot of energy into these pre-clinical programmes through people, putting people on the ground. That's really important, and it's testament to our confidence in the business going forward, our capital confidence but also our people, confidence in putting resource in as well. This market could get very interesting for Croda in the next decade. Jez, on the second point.

Jez Maiden – Group Finance Director

So, raw material recovery and so forth. So, in 2021, we had, as Steve said, a 17% increase in raw materials. Clearly, there's an annualisation effect to flow through, probably about half of that to flow through in 2022, which is a straight sales price recovery.

And then we've seen some further increases in the first quarter with maybe some early signs in the second quarter that there's fewer of those increases because we feel raw material inflation should slow down at some point, and maybe we'll see that in the second quarter but it's still quite early to confirm that maybe we're seeing that. And what we've show in the model is we're very successful in recovering that. A little bit of a lag in Iberchem, which is common to, I think, all of the flavours and fragrance businesses, but, you know, they'll get there and so forth in there. But the Croda model works very much on achieving that recovery on a quarter-to-quarter effect and, as you can see, there's been no adverse margin impact in terms of doing that. So, confident of seeing that recovery.

Now, then when we break down sales and margin, we sort of think of sales growth independently. So, we're certain that we're going to recover any raw material inflation that we see, going forward, as we did last year. What we're then saying is – okay, so then think about the underlying sales growth that we're seeing – and I think, in Consumer Care, we're seeing that as mid-single-digit, but there will be price recovery on top of that, but that's, sort of, passed through, in effect, to maintain profit.

In Life Sciences, we think it will be high-single-digit. Although we expect to see lipid systems flat in 2022 in sales terms at $200m, we still expect to see very strong growth in the other two platforms, and we expect to see strong growth in crop.

So, I think we can see high-single-digit sales growth, as Steve says, at margins which are certainly in the mid-30s for the Life Science business. And then, in Performance Tech, we'll expect growth to be more in the GDP range, but again, with margins, you know, at/or a little better than the level that we've seen in 2021.

So, I think what we should be seeing is some really steady growth, some raw material price inflation recovery on top as well as the annualisation effect, and then some margin improvement as well. So, I don't know if that deals with the question.

Charles Eden (UBS)

Yeah, it does. Maybe just on the 17% raw material inflation, is there a big difference by divisions? I'm just thinking, you know, if PTIC being here for half the year, just thinking, in Consumer, in Life Sciences, is 17% still about the ballpark or is it more or less?

Jez Maiden – Group Finance Director

It's quite interesting. If you look at the release where we've broken out the price/mix in the underlying businesses, actually, I think it's pretty consistent.

So that's 17% raw material recovery, it's probably about 6% on sales given that raw materials are just over a third of our sales value, but there's some inflation recovery going on in terms of energy and distribution costs and so forth in there as well. So, I think, when you then look at the, as it happens, 17% increase in sales price mix, that's probably about half of inflation recovery, 8 or 9 percentage points, and then the rest is the mix effect coming through, particularly in Consumer and especially in Life Sciences.

So, interestingly, when you look at the price mix, you know, we're up 13% in Consumer. That feels like nine percentage points of sales price and three or four percentage points of mix with actives doing well.

If you look at Life Sciences, it's very heavily mix-driven because you've got these very small volumes, but at the very high values per kilo compared with a normal model in selling in tonnes. Then, if you look at Performance Tech, you've got 11%. And you'd expect, in Performance Tech, that to be almost all price recovery because there is some innovation going on there, obviously, but it's not of the same scale as the other two sectors.

So, I think, from that point of view, you can see that actually the price effect's pretty easily spread across those, but the mix effects are quite different, particularly in the two sectors that we're focusing on going forward.

Charles Eden (UBS)

That's really helpful. Thank you.

Jez Maiden – Group Finance Director

Thank you.

Nicola Tang (Exane BNP Paribas)

Hello. The first question was actually just to pick up on the outlook and the comments you made around destocking, or customer destocking. I just wanted to clarify, you know, is that something you've seen already and then, if so, which areas and what should we be looking out for?

And the second question was around investments. So, you've clearly talked about already reallocating some of the PTIC proceeds, you talked a lot about the Life Sciences investments, you know, how should we think about capex or investment going forward, not just for 2022 but in future years, and is it still mainly in Life Sciences or is it also on the Consumer Care side? Thank you.

Steve Foots – Chief Executive Officer

Well, let's start with investments. I mean, the way to look at the investments really, and new Croda, if you call it that post the sale of the majority of the industrial business, we still screen, by and large, for about 6% of revenues in capex. You know, it's capital light. It's definitely not getting any more capital heavy if you like.

The incremental spend on top of that is virtually all going into this drug delivery platform around the world to capitalise on the growth. We're sitting on 250 big projects. You know, there was a time in Croda where one or two we got excited with. We've got a lot more now. So, you know, clearly, a lot of them won't get there but all we need is a few of them to get there and we can satisfy that growth.

So, the model is about the normal screening for us. It's about 6% plus the incremental spend. That incremental spend will continue in '22 but then probably moderate. I mean, it all depends on what we see in terms of looking through our intelligence platforms around the conversion rates through the clinical programmes, but at the moment we've guided to around £160m for this year but a lot of that is because the incremental stuff on top. It's all into the slide you saw on the build and scale for drug delivery. It's all about the incremental spend there.

Jez, I don't know if you've got any other comments on investment. Are you happy with that?

Jez Maiden – Group Finance Director

No, that's fine. So, yeah, it's still spread across the two but, as Steve says, the extra spend, which we think's probably a three-year period of additional spend at the moment that we can see. So, we think we'll run at an elevated level through a three-year period and then return to the more normal level, which is probably nearer, you know, maybe £100m, 6% of sales, that sort of level. So probably three years of this elevated level, as Steve said, very much focused on healthcare.

Steve Foots – Chief Executive Officer

And I think, in terms of the demand, you know, we're cautiously optimistic looking at next year. You know, what we didn't see, like many in the industry, in quarter four, we didn't see the seasonal downturn that you'd expect. It just continued, and it's continued very strongly at the start of this year as well. So, there's no surprise there. A bit of inflation in there as well. So, raw materials are going up further in quarter one, and we expect that to moderate.

And the inflation around Croda's businesses, it's quite interesting because it means that there's volume growth there. It's demand-led, by and large. So, you get the volume growth and then you also get the pricing on top.

So, we would expect raw materials, in a world that we can see today, we expect raw materials to, sort of, moderate off their tops from quarter two onwards. So, I think, if you look through the 12-months period, a little bit of raw material increase weighted to front end.

In terms of stocking, we don't see any big changes, but there's some moderation, and I expect it to come in the Consumer industry more than anything. Consumer Care, where, you know, L'Oréal were out with 7% or 8% market growth rates for them in '21, and about 5% for Personal Care in '22. You know, we're not too far away from that in terms of what we see. So, I think it's still very buoyant. There's a resurgence. I think that resurgence will continue at a higher level but there's probably a little bit of stock trimming that comes on top of that.

So, still very pleased with progress. In the round, we don't see any big destocking effects coming but just more trimming around the edges, I think.

Jez Maiden – Group Finance Director

I think it may be more pronounced, if you get any effect, it tends to be in the Performance Technology business, which is one of the reasons that we've gone for the divestment which moves us away from some of the cyclicality that Steve spoke about on one of the earlier slides.

So, I think you tend to see a little bit more cyclical variation in automotive and industrial markets. The whole move to Life Sciences and Consumer is about making the business more consistent and accessing the higher growth rate, and we don't see that changing.

Sebastian Bray (Berenberg)

Hello. Good morning. I have a few questions, please. The first is on the definition of lipid system sales and visibility out to 2025. Steve, you've talked earlier about the opportunity from pre-clinical Phase One and Phase Two, Phrase Three trials in this area. Can I just confirm the $200m sales figure that Croda cites does not include, as a rough guess, the $40m to $50m of sales for Polar Lipids separately that flowed to the pre-clinical market? And, if that's the case, Steve, I think you've mentioned in the past achieving a $200m-sized business by 2025, or maintaining it at that level, does that effectively imply a net loss of $50m of sales because, at the moment, we have, let's say, $250m if you include the pre-clinical applications, and does that go to $200m by 2025, or what type of visibility do you have there?

Jez Maiden – Group Finance Director

Hi, Sebastian. So, the lipid systems definition includes Avanti sales where they're going into the LNP platforms. So, Avanti has this 50-year history of being an R&D house basically being able to produce different delivery systems for customers who are primarily in pre-clinical and clinical trial stage. And some of those are lipid-based and some of them are other chemistry-based.

So, what we're including in the lipid systems is just those which are going into LNP applications which, right now, is pretty much COVID-19 applications. So, they're either the vaccine contracts with the principal customers or they're the other COVID-19 areas that have been developing over time. You're right to say that, on top of that, there's a bunch of sales - $40m or $50m might be a little bit strong – but there's some more sales which are all part of that R&D development capability that serves about 2,000 pharmaceutical customers.

It's the $200m which is currently very focused on the COVID application that we see developing into non-COVID, and that's where the projects that Steve talked about in terms of pipeline are really coming through, with two-thirds of those being non-COVID applications. And we're great with the COVID applications, but obviously, the non-COVID ones are also about, you know, longer-term treatments, other vaccines, therapeutic drugs, etc.

So, what we want to do is to morph this portfolio over time to a $200m portfolio with lots of customers and lots of applications. So, increasingly, that $200m, which is right now focused around 3 or 4 pieces of business with one big piece of business in there will develop into multiple customers and multiple applications in COVID and non-COVID applications.

So, on top of that, you have the Avanti, I'll call it a catalogue business but that's not really fair, it's the sort of thing where R&D people in the pharmaceutical industry are ordering very small amounts of different things. That business will carry on, and it carries on growing very nicely at probably 5%, but the big opportunity is the development of the lipid systems capacity into a whole new range of different ingredients for mRNA and gene therapy.

So, definitionally-wise, we're just focusing on those sales that are going into, sort of, LNP-based systems basically.

Steve Foots – Chief Executive Officer

Just to add to that, for '22 and '23 for lipid systems, we see three different types of revenue stream. We see, obviously, from the big partnership we've got, that will continue into '23 as well. You know, we might think, in the UK, we're near the end of it but we're just starting in some parts of the world. So, that rollout will continue. And you've obviously got these booster jabs and the sort of regular annuity that might come with that.

And on top of that, for that revenue stream one, is the potential flu vaccine and RNA together, which could be quite significant. Again, a lot of R&D in there as well, but that could be a solution which extends, actually, RNA a bit longer than you think in COVID because it could be wrapped up in a flu vaccine as well, which would be a neat thing to do. So that's revenue one.

Revenue two is we have other customers in the COVID space with lipid ingredients. So, as Jez said, there's a small number of those that we will be attracting revenue with '22 and '23. And then also, on top of that, it's the non-COVID applications in clinical programmes, and we already have some revenue streams coming later this year. At the start relatively modest but, hopefully building as we start to launch our new products, let's just say that, with our own IP in, let's just call it non-COVID application areas.

So, there's three revenue streams running through but as Jez says we're looking at this market as a minimum of a $200m market by '25 and we've said that openly with everybody last time, but with lots, you know – this has the hallmarks of hundreds of products, hundreds of customers. It's not one product and it's not one customer. We don't want to be there. You know, it's like the old API days of a lot of companies. We had an API in our stock a few years ago. It's great when you get them but they're pretty volatile.

So, for us, it looks like a very good expanding opportunity for us. Our job is really to update our sales and you as we progress through the conversion rates through these projects and these clinical programmes through the next few years. So at the moment three revenue streams coming through in the next couple of years.

Sebastian Bray (Berenberg)

That is helpful. Thank you. I'll quickly follow-up. I don't want to outstay my welcome so to speak. As a rough guess, if I look at expected Sanofi RNA flu doses and then your potential revenue split, is it fair to say about $200m is roughly 50 COVID, 50 non-COVID in terms of the split or could you comment on that?

Steve Foots – Chief Executive Officer

What, today?

Sebastian Bray (Berenberg)

No, by 2025.

Steve Foots – Chief Executive Officer

We won't comment on that. We don't know but I think your $200m will be certainly a good number for us and a lot will depend on the speed at which the clinical programmes come through, and the combination of flu and RNA is something interesting which, again, you know, it's in research, advanced research, and we'll see where that takes us as well. So, we can't comment because we don't know, not because we're trying to be evasive.

Sebastian Bray (Berenberg)

Just a quick one on the quantitative side – am I right in saying that the dis-synergy is now guided for PTIC net of any contractual additional volumes or tolling arrangements is around £10m? Is that right from the number that we're shown?

Jez Maiden – Group Finance Director

Yeah, that's sort of right order of magnitude. The dis-synergy costs are essentially costs which are currently borne by that PT business which don't change. Me and Steve might be good examples of that because, obviously, we charge all our costs to sectors. But of course, it will be transitory. The whole idea is to release the capital from the majority of the PTIC business and reinvest it in the Consumer and the Life Science. So, clearly, as we look forward two or three years, you would expect to have the same sort of revenues, so it'll mean more profitability. So, the dis-synergy costs will be there post-sale but only until we redeploy the capital fully.

Sebastian Bray (Berenberg)

Thank you.

David Bishop – Director of Investor Relations

Steve, there's a related question on the lipid systems from Sam on the webcast who says – Pfizer recently spoke about their relationship with Acuitas. How does this impact Croda in the medium term with regard to future projects outside the scope of the COVID contract?

Steve Foots – Chief Executive Officer

Yeah. I mean we view that positively because what it's basically saying is Pfizer are fully committed through their R&D programme to really invest heavily in the new generation platforms with RNA, and Acuitas have technology ownership to some products in lipid systems. So, you know, what Pfizer has done is they've agreed, effectively, a scale up licence, a manufacturing licence of some arrangement.

So, Acuitas are the owner of the technology and then they don't manufacture. Their job is then partnering up with the Croda's of the world and, ultimately, the Pfizer's of the world to make sure that they can utilise their R&D and use that through either scale up or scale up with partners. But that's a big confidence boost for the world of RNA because it's basically saying that they're moving very quickly.

There are ten different agreements, so there's a minimum of ten different types of products. And it's back to our point that, you know, the rollout of this through clinical project, this isn't one product that's going to get commoditised like you might see in the battery world. We don't see it like that. There are some companies that have invested in that. You see prices drop very quickly. This is very science-driven. Lots of complexity and lots of tweaks needed for specifications of products – you're all about stabilising the mRNA and that's tricky in different applications. So, you know, we like that because we like the complexity of it.

Georgina Fraser (Goldman Sachs)

Morning. It's good to see you in person. Thank you very much for having us here. I've got three questions. The first is if you could comment on how you think prices for lipid systems outside of coronavirus applications might look?

The section question is a clarification from your print this morning. It said that, in Life Sciences, the double-digit growth can continue in patient health, and I was wondering if you could clarify if that was across all three of the platforms or just speciality excipients and vaccine adjuvants?

And then my final question is we've seen, last year, Consumer Care, the top line outgrowing the bottom line, which is not necessarily the typical Croda model. I'm wondering at what point in time the bottom line will start outgrowing the top line in Consumer Care again.

Steve Foots – Chief Executive Officer

Yeah, so on the price we're not factoring in any attrition, significant attrition in price in the lipid space generally I would say. But in non-COVID applications, what you find we've got a lot of intellectual property in that space as well, and I don't think, back to the point before, that it's not one product that's going to drive this where everybody's going replicate the same product. It's on a case by case, treatment by treatment basis and there'll be lots of similar technology platforms but slightly different. So, we're not factoring that in.

I think the big thing for us and for you is how quickly can these be commercialised through the pipeline and what does that mean for us because the revenue stream and, you know, the profitability in those products is very high, as you'd expect. We really want chemical industry risk, pharmaceutical margins. That's what we want in our products, and we think we can do that in most cases. We're selling to, effectively, a specification. You know, it's a slightly different risk environment, which we're looking at through our risk frameworks, but essentially, it's a different margin in pharmaceuticals.

Jez, on Life Sciences, do you want to, and I'll come back on Consumer Care, on the shape of the profit?

Jez Maiden – Group Finance Director

Take them both?

Steve Foots – Chief Executive Officer

Yeah.

Jez Maiden – Group Finance Director

Yeah, fine. So the double-digit growth, I mean, we always said, on the first platform which was speciality excipients, which is the one we've grown organically over the last 10 to 20 years and then moved into these areas on biologics and oncology drugs and so forth, I mean, we certainly see 10% to 30%, which has always been our medium-term range on that platform, as ongoing because there's lots of opportunities there.

You know, we doubled capacity last year – well, we brought that on the stream at the beginning of last year and, you know, that will last us three to five years. So, we're thinking about the next project, sort of, in that.

So, see very strong growth continuing in speciality excipients. I mean, the vaccine adjuvants, smaller business that we acquired through Biosector in 2018. But really, we could sell as much as we could build the capacity. Every time we build, we expand capacity and, as Steve said, we doubled capacity last year. It sold out within a few months. So, we think the opportunities in the vaccine adjuvants, from a smaller base, is very exciting.

And then the lipid systems, absolutely. I mean, as Steve said, I think what we're trying to do at the moment is bridge between 2021 and 2025 I guess in terms of the lipid systems platform, which is why we, sort of, say, look, it's $200m today and it will be, we believe, $200m then, but a very different mix.

And, of course, from there, as that mRNA market rises towards the $35bn that Steve spoke about, then our share of that market means that that should be growing very rapidly as well. But clearly, we're getting in from this slightly unusual position of single product, single application, to the classic Croda position of a big portfolio of customers' ingredients. So, they'll all be driving growth for many, many years to come, in our view.

In terms of Consumer Care, probably 2021 is the low point and then I think we would expect to see margin move forward in '22 and beyond. I mean, clearly, it's just a function of maths. It's the dilution effect of having a full year of Iberchem, having acquired it in November of 2020, and its margin is in the mid to high teens, sort of natural level for the fragrance industry, and clearly, even at the top of that industry, you're only looking just into the bottom end of 20%, whereas in Personal Care, last year, we achieved 30%, and that's despite a high remuneration charge from the bonus and share plan-based costs there.

So, that's the one-off dilution effect effectively, and unless we see exceptionally strong growth from Iberchem or we do some more acquisitions in that space which are dilutive, then you'd expect the margin in Consumer Care to move steadily forward, certainly into the high-20s we believe is achievable over a period.

And, when you think about the drivers to that, in Iberchem we're investing now. You're going to have the sales synergies coming through that Steve talked about, the €48m by 2025. You've got the benefits of, we haven't talked about it, but the ECO plant in the States where, clearly, that's moving from a loss situation to a profit situation, so that's additive, of course. It's not exclusive to Consumer Care but Home Care and Personal Care, Beauty Care are the big drivers behind that area.

You've got stronger growth in Beauty Actives, which is always mix beneficial to Consumer Care. So, I think you've got lots of reasons to believe that that's going to be good margin accretion. It will just be a little bit noisy depending on the relative rate of growth of fragrance compared with the personal care market. But yes, good, strong opportunities there.

Charles Bentley (Jefferies)

Thanks. I just wanted to follow up on the kind of, commentary around lipids into, kind of, 2023. I know, obviously, we're quite a way away but, I mean, as you talk around the balance of those three pools there, can you just give any kind of indication of the absolute level, where you think it might be today?

And then you've talked about Nicola's question around investing in organic growth. If we talk about M&A priorities, I mean, are they still squarely bolt-ons in Life Sciences or, I mean, there's an indication on Personal Care there? Just any colour you can give there. Thanks.

Steve Foots – Chief Executive Officer

Yeah, well, I mean, we'll start with the M&A. M&A for Croda, the organic growth model has got a long way to play out now. You know, we're very pleased with the acquisitions that we've done recently, and we see a lot of growth opportunities there. You can see that we're investing in that, both in capital but also in knowledge, in research and in clever people. So, we expect that to continue.

But we've also got the option, we've got great optionality now, once we get the proceeds from the sale, that gives us flexibility to look at different things as well, but the priority's organic growth plus probably bolt-ons.

We like the Avanti-type model - I think you do as well - you know, which is knowledge. You're buying knowledge. You're buying 125 people and you're buying 100 of them, maybe 110 of them, are scientists. So, you're buying clever people. And what we're doing is commercialising that knowledge. That’s what we do very well. So, that's the type of business that we're looking at, and there's no surprise, if we see opportunities in the drug delivery space, we'll move pretty quickly if we thought that was the right thing to do.

But we'll also spend quite a bit time looking in sustainable ingredients, positioning of Consumer Care as well because there is a shift there. You can see it, we can feel it and, when we talk to our customers, that's structural. And we saw it before the pandemic to a small degree, but now it's firmly embedded in the mantra of all the big multinationals. You know, they're all moving away from the petrochemical-based ingredients, you know, L'Oréal, Unilever, more to follow. They'll lead the industry in that way, and we're starting to see that with the rest of the industry following. So, you know, that's the direction of travel from an inorganic point of view, and there should be no surprise there.

In terms of 2023, it's a good question, as they say. It's a difficult one to answer, you know, but we're very heartened with the revenue streams emerging from these three different areas.

You know, with our big partnership, a lot will depend on where we are with the rollout, where we are with booster programme, where we are with the vaccine combination hybrid, you know, mRNA-type product, and that could have a very positive effect as well.

But I think it'll be a healthy revenue stream and it's not going to deteriorate to nothing, as some people say. I mean, we've got the revenue streams. We're contracted. We'll get what we will get from our share of our big contractor, the question will be the other two revenue streams, how quickly they progress. And I think it's too early to say because, you know, we could quote a number, we could give you a number, and I think that's difficult to back up at the moment. I think, as we go through the year, we can start to see what that looks like.

But again, as we say, we're heartened with and very encouraged with '24, '25 plus where you can start to see this business emerging as a really, you know, great Croda business, like a nascent Personal Care business from many years ago with a very different shape to it. So, yeah, I think that's the difficulty of putting, you know, a big number on that.

David Bishop – Director of Investor Relations

Thank you. There was a question from Andre on the webcast who asked about guidance on use of disposal proceeds. I think you've largely covered that. Anything you want to add on use of proceeds from the PTIC disposal?

Steve Foots – Chief Executive Officer

Well, I think we're just saying, with the capital allocation policy which Jez led when he first came to Croda, you know, it's very clear, very consistent. If you look at, in the pack, Jez's last slide just shows you how we're consistent with that. You know, we'll follow that through.

So, we first look at capital investment in the business, we then look at, you know, the shape of M&A as an opportunity going forward for us in the next 12, 18 months. If we don't need, or if we have spare cash that we don't need to deploy in either of those two areas, then we'll return it. You know, we'll return it in the usual way, and we've demonstrated that in the past, and we'll demonstrate that in the future. So, we're not going to sit on an inefficient balance sheet for any length of time.

But I think it's fair to say most of our investors will want us to invest in the business if we see some good opportunities for it, particularly if it's into these exciting fast-growth spaces. That's what's we'll be looking to do if we can, but we're not here to waste money. We're here to do the right thing with it.

David Bishop – Director of Investor Relations

We'll go back to Adam for questions over the telephone line, please.

Telephone operator

And our first question today comes from Matthew Yates of Bank of America. Matthew, please go ahead.

Matthew Yates (Bank of America)

Hi. Good morning, everyone. Apologies I couldn't be there in person. A couple of questions, please. Amazing job to pass through so much raw material inflation but can I ask about the volume trends in Consumer? I think you had 11% volume growth in the first half, so, if you're saying it's 6% to the full year, I guess is that implying that the second half is basically around flat. Is that right and is that the sort of expectation that you're seeing in early '22?

And then the second question is around NPP, and I think that's slide 6 in the deck. There was a notable step up but, as you're saying, most of that was acquired so there's a 60 basis point increase organically in actually over the last two years is negligible. So, I guess the question is are you getting enough innovation coming out of your internal efforts or is the target to offset the natural attrition in the portfolio in order to protect your overall, sort of, pricing and profitability model? Thank you.

Steve Foots – Chief Executive Officer

Thanks, Matthew. So, NPP first then. Yeah, I mean, the way you should look at that is what we've seen in the last two or three years, the innovation's not slowing down in Croda.

What's happening is the base, the non-NPP business is growing very well too. So, what you're seeing is normally you'd expect your NPP to outstrip your base business, but because we've seen this rebound and this resurgent personal care recovery in industrial markets, what you see is the base business coming back very strongly too.

So, whilst the numbers, the percentage of NPP's not changing significantly, you shouldn't read into that the innovation projects that we've got. So, that's more an effect of the non-NPP rebounding much stronger than normal. That will reach its natural level and NPP will then outstrip that.

I think the other thing to point out though is, yeah, we want to buy knowledge. We want more knowledge in the business anyway because I think every company has to keep reshaping and keep doing things differently. So, it's about moving into new markets but with knowledge. And, you know, in Avanti and in Iberchem, they've got a lot, and you'll see that as we start to show you those facilities. You'll start to see they've got some great innovation programmes and quite a high level of R&D skill, much higher R&D in their businesses than in the average Croda business across the board.

So, that's the direction of travel we want to move anyway, so we would expect the NPP growth, generally anyway, to move ahead, a more stable-looking non-NPP environment, when things moderate in the next, probably, couple of years. So, that’s that.

It's a good point on the price mix. We’re exiting around about 5% volume in the price mix generally for the company, and Consumer Care was below that. But a lot of that is the function of just the capacity. We’re flat out on a lot of our units at the moment and the order book is strong now for well into this year, much longer. Outstanding orders for example are much bigger than we would normally expect, but I think that's more an industry than everything else, but it's a reflection of demand. You know, demand is strong.

So, our model for this year is, clearly, there's quite a lot of price riding into this year with some probably modest volumes in Consumer Care. We'd expect some volume growth in Personal Care as we've been investing in the past for this year and next year, but it'll be relatively small, you know, low-digit volume growth for Consumer.

Jez Maiden – Group Finance Director

Thanks, Steve. Hi, Matthew. I think as well, thinking about the comparators for last year, I mean, the first half, obviously, was compared against quite a weak first half of 2020 because of the COVID impact, which was sort of down 20% in Consumer Care in the second quarter of 2020, whereas we'd already seen full recovery by the end of 2020 and, therefore, the growth last year was on top of that. So, I think the overall 5% volume growth is very encouraging.

The other element was that Home Care was relatively weak last year because it had such a strong 2020 on the back of hygiene demand, but we saw good growth in Personal Care, particularly at the top end. And, as Steve says, I think going forward, that mid-single-digit growth, excluding raw material inflation recovery, then should be a good mixture of volume and mix driving that mid-single-digit growth. So, we're quite comfortable around that.

Telephone operator

The next question comes from Chetan Udeshi from JP Morgan. Chetan, your line is open.

Chetan Udeshi (JP Morgan)

Yeah. Hi. Thank you and morning. Can I ask a question on the price mix in the Life Sciences business which achieved, on my numbers, went to, like, 29%, 30% in the second half from 42% in the first half, so can you comment on what's going on within the mix in the Life Sciences? You know, I know there are different businesses but, the key question there is, is there a read on pricing in any of the businesses in the second half versus first half? That's the first question.

And then there was interesting slide in the deck showing the growth by different subsegments within Consumer Care and clearly the Beauty Actives part seems to have grown much faster, but when I do the maths, ex the acquisitions, ex the Home Care, the margin, it's still, sort of, 29% to 30%, which is still quite a bit below 33%, 34% that you guys had in 2019 I think. And so, the question is when would the mix go back in those old Personal Care businesses? Why is the margin still lagging so much? Thank you.

Jez Maiden – Group Finance Director

Yeah. Hi, Chetan. So, in terms of Life Science, I think, well, it's the mix that's going on there. So, there's no price erosion or anything happening in any of the platforms, and particularly in the three patient healthcare platforms in healthcare there.

What you've got in the first half here is you've got very, very strong growth. We were up over 60% in sales in speciality excipients and vaccine adjuvants in the first half year, and that was really a function of really uncorking the bottle. That's when the new capacity came on stream in both the US speciality excipient plant and in vaccine adjuvants in Denmark. And so you had this sort of release of pent up demand where people were waiting, obviously, for – you know, and in pharmaceuticals, you can have several months of stock, basically, in the pipeline. So, people can manage on a longer wait.

So, you had this very strong sales of, sort of, 60% growth in the first half and, in the second half, it settled down to more, sort of, growth in those two platforms in the 20s, and therefore overall growth of over 40%. And, as I said, the 20% growth was much more consistent with where we see growth being 10% to 30% on those two platforms going forward.

So, because you had that big effect, that's why you get this price mix change, although 35% price mix is still pretty stunning, I think in terms of delivery. So, there's absolutely no price erosion going on in there. We've got a contractual price reduction in the second year of the principal contract in lipid systems, which reflects the fact that, obviously, we've now in full-scale production and, therefore, the efficiencies and so forth improve, but that's the only built-in price reduction. As we've said, we expect pricing to remain strong, particularly as lipid systems develops into a wider portfolio of products for different customers.

In terms of Personal Care, I think the key difference between 2019 and 2021 is remuneration charge. As we note in the statement, remuneration charge is about 2 to 2.5 percentage points of margin. There were no bonuses paid in 2019, and the share-based payments were relatively low, and they were very strong last year. You know, Croda's variable remuneration, which affects the top 600 people in the organisation, is very much about profit growth year on year and, although 2019 and then 2020 were pretty decent performances, they were still down by 5% to 10% in terms of profit. So, there was no bonus paid. In '21, you've got a full bonus and, of course, you've got a very strong share price into the end of the year. So, that's about 2.5 percentage points.

So, as I said, Personal Care is sitting around about 30% return on sales. If you grossed it back up, you'd be at 32.5%, which is pretty much around the 33% peak that you refer to back in 2019. So, it's just a function, again, of all of these costs have to be borne by the sectors and, therefore, you're going to get a bit of volatility according to what's happening in those variable remuneration programmes. Other companies, BASF, etc, they pull them out as a separate division, but we don't do that. We allocate it to the sectors in our reporting numbers.

Steve Foots – Chief Executive Officer

I think other thing, Chetan, as well is, you know, we look at it from a divisional point of view. We judge them on gross margin. We're glued to gross margin in the business. It's a good crude indicator for us. And we're not seeing any gross margin attrition in any of the businesses, and it's actually quite consistent across them all where you're seeing this robustness. So, we're navigating well through the inflation environment, but the central cost adjustment is significant, and, you know, we can talk to you about that separately, I'm sure. Okay?

Chetan Udeshi (JP Morgan)

Thank you.

Telephone operator

The next question comes from Charlie Webb of Morgan Stanley. Charlie, please go ahead. Your line is open.

Charlie Webb (Morgan Stanley)

Morning, everyone. Again, apologies for not being there. Just a couple from me. So, just first off, on the capex into healthcare, we see another chunky investment year ahead, perhaps just give some more details in terms of which platforms that's, kind of, been allocated to? You mentioned that high purity excipients already has capacity to grow into it. Just trying to understand where that's going and maybe if you could let us know the type of payback you would expect on an investment?

The second question, just on working capital, see quite a big working capital build in 2021, you know, what do you anticipate there in 2022? You know, you built up some stock. I'm just wondering whether that is likely to repeat, unwind, etc, for 2022 would be helpful?

And then, lastly, just on Consumer Care, as you think about the mix heading into 2022, you know, do you expect to continue to see Beauty Actives effects, etc, outgrow, kind of, formulations, Home Care and, therefore, you know, just trying to sense whether that takes margins plus at this point for Consumer Care in 2022 relative to where we ended up in 2021?

Steve Foots – Chief Executive Officer

Okay, Charlie. I'll let Jez do the working capital and I'll kick off with other two. I mean, capex, Healthcare, there is a slide in here - I don't know if you've seen it – which, sort of, describes that. So, the third slide of the biopharma pack. I mean, essentially, what we're trying to do is the Avanti model is a great pre-clinical model. It's a pre-clinical machine and it's getting samples out to all of these pharma companies. They do that very well. We've been scaling that up with people resource to turbocharge that. You know, we don't really know how many pre-clinical projects we're in, but we're in a lot, which is great.

But their model wasn't great at capturing the future growth when they came through the clinical programmes because they outsourced that volume to other providers, CDMOs, contract manufacturers, call them what you want. So, our job is to then build that capability.

So, we've decided to build that capability in North America. So the idea there is in our Mill Hall facility, just round the corner, where we're looking to invest space there to scale these things up. So, it's all about scaling up, expecting some of these clinical programmes to be successful and being available to scale those up there. So, there's investment targeted there and also in our UK lipid facility there as well as we plan for future growth.

But then, I mean, the paybacks are very modest. The paybacks are very fast and very modest. So, they're in the region of about three years payback, maybe even less than that. And it's not huge infrastructure we're putting in. We’re building kilo quantities rather than, you know, oil refineries, as they say. You know, these are relatively small, but they've got to have flexibility to refine, purify and separate. That's effectively where the craft is and we've done that for 40 years, 50 years pretty well. So, it's more in that area and you see that on the slide. So, that was the capex.

In terms of mix, I mean, I think the actives if you look at Consumer Care mix, as Jez commented, we expect margins to generally move upwards over the next near term and medium term steadily we would say.

You're going to see the mix, I think, between the actives and the formulation area will be broadly similar to what it is now. I think we would expect the actives business to grow in percent levels higher than the formulation business. It's a smaller business and we're not disappointed with the formulation growth as well. So, I think that sort of ratio is about right where it is now for this year.

And I think the other drivers are things like, as you say, ECO. We're now starting to displace a number of petrochemical companies in formulations now on the back of L'Oréal, Unilever's moves, big statements on moving to bio-based by 2030 for both of them. You're starting to see that. We've seen that quite significantly. We expect a profit move forward therefore and that tends to benefit more the Consumer Care business than it does the Life Science business. So, you know, there are a few drivers there, and also just the pace of the projects that we've got.

If you look at the number of projects that we've got in the pipeline, we're starting to see our big customers now moving with some of them. There's been a delay during the pandemic, as you'd expect, but a lot of this, sort of, pent up innovation demand from their R&D stables as well. Jez, anything on either of those and then you on working capital.

Jez Maiden – Group Finance Director

No, nothing to add on those, Steve.

On working capital, Charlie, so we had these two components of £70m increase which is, sort of, pro rata to the increase in value with a constant number of working days cover. So, I'd expect that to drift upwards at the moment from what we can see because, obviously, we've got price increases, as Steve mentioned, in the first quarter of '22. So, the values, I think, will be up a bit but not, at the moment, by that order of magnitude.

And then on the tactical contingency stock that we held, £45m of extra stock, one would hope that we could start to allow that to reduce now and to reverse.

It is incredible. It's been a really stellar performance in terms of 2021, but it's been delivered against a backdrop of much increased customer demand at a time of really challenging global distribution positions, and the teams internally have worked superbly well, both at manufacturing level and at the customer service and distribution level, to overcome those problems.

We're starting to see some normalisation now in the distribution chains around the world. Not quite so stressed at ports and so forth because I suspect that's added about two weeks to our stock that's been on the water. Just the difficulty of getting things through ports. So that, hopefully, is starting to normalise now and that can mean that the tactical inventory should reduce.

So, I think there will still be a small working capital build in 2022, but nothing like that the same scale as we saw in '21.

Charlie Webb (Morgan Stanley)

Really helpful. Thank you very much.

Steve Foots – Chief Executive Officer

Thanks, Charlie.

Telephone operator

Our final telephone question comes from Isha Sharma from Stifel Europe. Isha, please go ahead.

Isha Sharma (Stifel Europe)

Hi. Good afternoon. Thank you for the presentation. I have just one left, please. The Iberchem margin was already impacted in 2021 as far as my calculations show, and this was probably due to the raw material costs which is in contrast to the F&F players where they haven't seen any impact yet, but they guide for 7% to 9% inflation in '22. How should we think in general about Iberchem? How comparable it is to their guidance and what kind of margin impact are you expecting after the already low margin in '21? Thank you.

Steve Foots – Chief Executive Officer

Yeah, okay. I'll start and then Jez can add. I mean, yeah, we've been very happy with the trading performance. You know, it's screened for about 10% underlying sales growth, and it's just below that at the moment. But when you think about it they've had a perfect storm because they're in most of the emerging markets that have been really in heavy duty lockdown for most of the year. So, yeah, trading performance is good despite that, so we're pleased with that.

Margins, yeah, I mean their raw material increase through the year was significant. It wasn't 17% but it wasn't far away from that, so of the region of about 13% to 15% this year. They don't have any clever hedging system. They just take it like we do, with raw material costs every quarter. So, they've had that, they've carried that through the year.

I think that will moderate through the year, so that's obviously a help to margin improvement as well. I think the worst of it is behind them whereas, with some of the other players, I think, you know, because, whether it's hedging or other things they have to carry that into the year ahead. So, the margin headwinds for some of the bigger players are more significant than the smaller ones, well certainly for Iberchem.

So, you know, for us, I'll let Jez comment on the numbers, but we've had a drag on margins this year of '21, so we expect some of that to come back next year.

Jez Maiden – Group Finance Director

Yeah, I'll agree, Steve. Hi, Isha. The other thing to remember in the Iberchem margin short term is we've put additional cost in, like Avanti but not in the same scale. We've put an additional resource so we can really take advantage of these sale synergies. And, therefore, I think, while you've got a little bit of short-term dilution in line with our acquisition plan, the mid-term prospects look good.

We think that, with those sale synergies, every reason to believe we can get the margin on Iberchem to be, sort of, consistent with the best in class of the Tier 1 players, even though Tier 2 players have traditionally operated probably two or three percentage points below that. But, because of the synergies we can release by leveraging the Croda salesforce and leveraging our strength in developed markets while then getting more sales, particularly in the Consumer Care business from their emerging market exposure, the Iberchem performance itself margin should certainly get up into, I guess, around, you know, the low 20 EBIDTA margins that you see, you know, at the top end of this industry.

So, I think a little bit of short-term investment to make sure that delivers mid-term margins at the best in class.

Isha Sharma (Stifel Europe)

That's very helpful. Thank you. Just maybe a conclusion. Does it make sense to assume the reversal of the share-based compensation negative impact of 2% next year and take underlying margin as what we have seen in the second half for the Group? Is that a rough calculation, makes sense for next year?

Steve Foots – Chief Executive Officer

You have a lot of Croda people on this call, by the way and we would be delighted to pay a full bonus next year, very much delighted for the bonus and the PSP. But, yeah, we quite like it, you know. We like good bonuses. But it will be what it will be, but it's been a significant impact this year relative to a couple of other years. That’s for sure.

Jez Maiden – Group Finance Director

You know, for Croda, we're very proud of the fact that over 80% of the UK workforce are members of share schemes. Over 60% of the global workforce are members of schemes – that use of share-based payments is very strong across the organisation. And, you know, there's two functions really; one is performance, but the other is share price, and, of course, the share price was very strong at the end of the year. So, as Steve says, it'll be what it'll be. I wouldn't like to make any assumptions.

Steve Foots – Chief Executive Officer

And finance directors know better than the chief execs, by the way. No, and I think the other thing we would say as well is that we've just agreed a free share plan for the company. So, when the senior team of 600 get a bonus, then we expect free shares to be delivered down the organisation.

So, you know, everybody in Croda, even the junior levels, gets a share of that as well, and we think that's very much good for distribution of the reward. Everybody's been involved in a great year, great resilience from the team in what's been very challenging, and we've delivered, you know, knockout results, so they should benefit from that as well.

David Bishop – Director of Investor Relations

No further questions.

Steve Foots – Chief Executive Officer

Great. Okay. Well, thanks for everybody who's attended, both in person and on the call. It's great to see you all and we'll see you in the summer. All right. Take care. Thank you.

END