Croda International Plc

2024 first quarter sales performance

Call transcript

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

David Bishop
Good morning and thank you for joining this Q1 update call covering our sales performance in the three months to the 31 March 2024. I'm joined this morning by Steve Foots, CEO, and Louisa Burdett, CFO. Hopefully you've already seen the statement, so we will have a short introduction from Steve before taking questions. Can we ask the analysts to limit their questions to one per participant, please, plus one supplementary, only if necessary for clarification.

Steve Foots
Thanks David, and morning to everybody. Let me take you through the handful of key points that summarise what we have seen during quarter one. I will use the final quarter of 2023 as the comparator, as Q1 2023 was a very strong quarter before destocking commenced in Crop Protection and industrial demand started to fall, but you have both comparators in the RNS.

We are starting to see early signs of recovery in some of our end markets. Firstly, Consumer Care has made an encouraging start driven by a double-digit percentage increase in sales volumes in comparison to quarter four. Beauty Actives led the way with the strongest growth, particularly in North America and Europe. Beauty Care also delivered a double-digit increase in sales with growth across all regions, led by the Americas. And momentum has continued in F&F and Home Care. In common with our peers, we think Q1 benefitted from some New Year restocking, but we remain cautiously optimistic about the recovery in Actives and Beauty Care, plus continued momentum in F&F and Home Care.

Secondly, the market continues to be more challenging for Life Sciences. In comparison to Q4, sales were flat in Crop Protection. They were lower in Seed Enhancement although sales are seasonally second half weighted. And we also saw a small decline in Pharma, excluding Covid-lipids. Just on Pharma, as we indicated in February, we have seen the continued impact of destocking in consumer health, Covid-19 normalisation and phasing. These challenges are temporary rather than structural and will fall away at some point. What is key is that sales of delivery systems for Nucleic Acid and Protein-based drugs continue to grow and we are also bringing new drug delivery technologies to market that will contribute more as the year progresses.

Finally, Industrial Specialties saw higher volumes and a positive mix versus Q4. Remember it plays an important role in the overall efficiency of our manufacturing model, so we are pleased with the progress there.

Overall, Group sales were up 8% sequentially, excluding the Covid lipids we delivered in the previous quarter, and overall Group results for the first quarter were in line with our expectations. Currency translation had an adverse impact of just under £20m on Q1 sales and approximately £4m on Q1 profit.

Looking ahead, we are on track to meet our previously stated guidance for Group performance in FY24. As a team, we remain focused on executing our strategy and we have a clear set of priorities which are to capitalise on the steadily improving demand environment in Beauty Care, accelerate the conversion of our exciting Pharma pipeline, and to continue to enhance and improve the way we operate while carefully monitoring costs. Alongside continued investment and innovation, these will drive our performance in the near term. Louisa and I are now happy to take your questions.

Operator
If you would like to ask a question, please press star one on your telephone keypad. Please ensure your line is unmuted locally as you will be advised when to ask your question. Now, our first question comes from the line of Matthew Yates from Bank of America. Please go ahead.

Matthew Yates (Bank of America)
Hey, good morning, everyone. I noticed a consistent theme across the press release seemed to be better product mix in consumer health and industrial. Does that mix help the margins, or is it still much more important that we just get volume across the sites to see that margin recovery? Thanks.

Steve Foots
I think the main thing for margins is the big volume recovery. We've talked about the two big areas last year being, unusually, a big volume decline on our assets and then a quite an unusual mix effect in both businesses, both skewing to the negative. So, the way back is really about volume recovery. I think in Consumer Care what you're seeing, whether you look sequentially at quarter four exit rates or you look relative to quarter one last year, Consumer Care is double-digit volume growth and low to mid-single-digit price declines. Underneath all of that we’re starting to see IS coming through, so utilisation rates at the factory coming up from 55% to 65%. So we're starting to see some recovery coming through in the utilisation rates as well which is a combination of consumer and IS.

Louisa Burdett
I would reiterate that point on volume being one of our most positive indicators for the quarter. And the other thing that is helping a more positive trend on margin compared to what we were expecting is the fact that our internal destocking, so satisfying customer orders from stock, is coming to an end. So, we're getting that benefit as well.

Matthew Yates
Thank you both.

Operator
The next question comes from the line of Charles Eden from UBS. Please go ahead.

Charles Eden (UBS)
Hi, good morning. Thanks for the question. Firstly, just to follow up on the sort of answer there to Matt's question, you talk about low to mid-single-digit price declines sequentially versus Q4. Can you just sort of help us? I know this is a sales update, but just in terms of the direction of your raw materials, I just sort of think about things like wool grease into lanolin seems to be down sequentially and year over year quite a bit. So just sort of the context of how that pricing sits versus your raw materials. And then the second clarification, on the pharma business, obviously sequentially sort of slight decline versus Q4, but in terms of the healthcare ambitions for the year, I assume you're still expecting sort of strong healthy growth for that platform in 2024. Thank you.

David Bishop
Charles. It's David here. Just quickly on the raw materials. They broadly tracked the way that we said they would when we updated you in February. So down 2 to 3% in the first quarter, which as you know continues the trend that we saw in 2023 when raw materials were down by 12% through the year. We're pretty good when we look ahead into the next quarter and then it becomes more difficult to forecast what raw materials are looking like for the remainder of the year. And again, as we said in February, we think that we're probably reaching the bottom in Q2. So, we may even see a little bit of inflation as we get towards the end of the second quarter in line with what we said in February, with the first quarter seeing continued deflation.

Louisa Burdett
I think just a reminder, though, that we do have some small bits of tactical pricing regain business, which we've talked about consistently, but that will be a minor contributor to the price dynamic in the sequential single digit declines that we've talked about.

Steve Foots
And in the whole pharma area, what you're seeing is just more of a slower start in consumer health driven by some stock corrections more than anything else. But actually, the big platforms that we're obviously targeting, nucleic acid and protein delivery and the like, continue to strengthen.

They should continue to strengthen through the year as new business starts to come on. We've coded in one or two interesting projects with revenue coming through the year. So, I think a lot will depend on how we see consumer health, which is a relatively small part of that and how do we see that coming back. But the rest of the pharma looks fine.

Charles Eden (UBS)
That's helpful thank you.

Operator
The next question comes from the line of Chetan Udeshi from JP Morgan. Please go ahead.

Chetan Udeshi (JP Morgan)
Hi, thanks. With first quarter now under your belt, can you just help us understand how do you think about the phasing of the beat, let's say, 280 between first half and second half? Do you have a more updated view on how should we think in terms of phasing?

Steve Foots
We're coming out of this sort of second-order effect of the pandemic. I would say it's difficult to call because a lot of this is around the volume loading of the plants, reconciling that with the margin recovery. And also, a lot depends on how we see the life science business, particularly crop, whether it comes back or not in any material volume. So, I think it's still too early to say. And I think the encouraging signs as we exit quarter one, are obviously on the consumer side more than anything else. You've got consumer care slightly ahead of where we expected, Life sciences slightly behind.

The Consumer Care slightly ahead is on more of the volume starting to come back. We've seen some moderation in order intake, but it's still at a good level. So, we remain cautiously optimistic about consumer. A lot of the first half versus second half will depend on two or three different things. The volume loading in Consumer Care going forward and the rebound in parts of Life Sciences, whether it comes or not will determine what the sort of split we see, I think. And that's the whole point this year of trying to update you quarterly to take you through the trends of each of the sub-businesses to better guide you really.

Chetan Udeshi (JP Morgan)
And can I just quickly follow up on your comment on slight moderation in order intake in consumer? Do you think this is just a reflection of maybe some restocking in Q1, which is now maybe edging lower? Or is this also something like a seasonality that you have seen in the past?

Steve Foots
I think you have probably heard this from others as well; there's been some rebound. The order intake in late December, January was very strong. But actually, the order intake for Consumer Care through the quarter has come off a little bit but is still at a very high level. Our order intake volumes and therefore values are still giving us optimism, but we'll be cautious given we're coming out of the pandemic.

So, exit rates in quarter one are fine. The easter phasing could be an excuse this year, with sort of three days less in March than last year. But actually, we see through that and we see the continued momentum. I think what we're all trying to work out, whether you're in fragrances and flavors or whether you're in other parts of consumer is, where does the demand sit after that bit of restocking, but it still seems pretty okay to us.

Operator
Your next question comes from the line of Sebastian Bray from Berenberg. Please go ahead.

Sebastian Bray (Berenberg)
Hello everybody, thank you. Good morning and thanks for taking my questions. Can I just ask a technical one on the Consumer Care segment please? Does the 5% constant currency growth include the contribution from Solus Biotech i.e. is this actually an underlying organic growth number on a scope-adjusted basis? And so just to follow up on the earlier question, did I hear right to get to the midpoint of PBT guidance, we need a second half weighted recovery in Life Sciences? Thank you.

Louisa Burdett
Sebastian, the answer to the first is yes. It includes the contribution from Solus Biotech, but it's fairly minimal. As you know the business plan for that was sort of quite accelerated in the latter years, but it does include that.

Steve Foots
Just to be clear, we didn't say that, but on balance with where we are at the end of quarter one, if you decode the statement, we're slightly ahead of where we expected in consumer, slightly behind in Life Sciences. If that trend continues, then, we'll be comfortably in the guidance range. So a lot depends on where Consumer Care goes from here and where Life Sciences goes from here.

Sebastian Bray (Berenberg)
That's helpful, Thank you.

Operator
The next question comes from the line of Lisa de Neve from Morgan Stanley. Please go ahead.

Lisa de Neve (Morgan Stanley)
Hi, two quick ones from my side. Can you provide us with a quick update on the CFO change and if anyone has been found or where the process is at the moment, and then two, can you sort of share a bit around your utilisation rates and how they have progressed from the full year 23 and what you expect for the year, or at least some qualitative comments around that? Thank you.

Steve Foots
We're in the final stages of the CFO search, very pleased with that. So an announcement will come when it comes, we don't want to push that. It's more about diary management and finalising with the PLC board, so we won't give a date on that but it's not far away. As I said, it's been a good comprehensive process there.

I think utilisation rates I mentioned earlier on the call. If you just joined us, utilisation rates are improving. Our multi-purpose sites are all in slightly different places. But when we look at our utilisation loadings, they've gone up; typically, last year they were 55%. I'm looking at David to make sure that number is right. And then we're exiting quarter one at about 65%, so clearly that's a benefit. And that's going to help us because the margins are pretty stable. The gross margins in our world and the volume loading is the most important thing for us to make sure we can keep that going. So, as I said before, we're in the early stages of recovery.

Operator
The next question comes from the line of Amy Lian from Barclays. Please go ahead.

Amy Lian (Barclays)
Hi, just one question for me. I wonder if you could talk a bit about normal seasonality versus, I guess, the current sequential momentum you're seeing on sales because obviously, I guess if you take Q1 at the moment, it implies you need some step up in sales through the year, but I imagine there's also some seasonality anyway. So if you could give some guidance on volume momentum versus seasonality between quarters, that would be really helpful.

David Bishop
Hi, Amy, it's David again. So the seasonality is most distinct in life sciences where actually there's a strong Q4 weighting, particularly in seed enhancement, but also a little bit of a second half weighting in Crop Protection, as Steve's alluded to. We would normally expect the first quarter to be quite good in consumer care because of the new year restocking effect. That I think has certainly been apparent this year for understandable reasons. But overall, we're seeing encouraging signs in Consumer Care that gives us confidence for the remainder of the year, notably the fact that the growth is coming from all of our business units. The order book is 15 to 20% higher than it was this time last year and North America is leading the way, which is obviously the area that's been weakest for us over the last 12 to 18 months. So, net I think the seasonality works in slightly different ways in the different business units, but we're confident given the encouraging start in consumer care that we can build from here.

Amy Lian
Thank you very much.

Operator
Your next question comes from the line of Artem Chubarov from Redburn Atlantic. Please go ahead.

Artem Chubarov (Redburn)
Good morning, thanks for taking my question. I have one on Crop Protection, please. Would you be able to provide any color on volume price dynamics in the quarter, maybe some regional trends and your overall assessment of where we are in the destocking cycle for the division? Thank you.

Steve Foots
I'll provide some general colour and the team can give you some data. Don't forget last year quarter one was very strong for all of our businesses. So the comparators are the most difficult in quarter one. Then obviously it fell off the end of the cliff as we went into quarter two, crop and industrial that is. I think generally what our customers are saying is, it's not getting any

worse. You can see sequentially it's broadly flat from quarter four. So, it's stable at a weak level. The likelihood is volumes are going to come back to some degree, we would hope but we can't be sure, through the second half and beyond. But the rate at which that volume comes back is still the big question. And a lot of our crop customers are still unsure as to how that comes back and it's different for each one.

But by and large, it now feels like it's going to be North America coming back first, then Europe, then Latin America. I think Latin America have a bit more of a weather issue with drought and things like that but we're in a good place there. We are the number one delivery system supplier in the industry coded into thousands of formulations, so when it comes back it will come back. I don't think there's anything structural we just have to wait for it to come back. But I'll pass to Louisa on the specifics of your first part of the question.

Louisa Burdett
The only data point that I would give to support Steve's statement is if we look sequentially, we've already indicated that at a total SBU level, we are flat quarter on quarter, but North America is definitely in pole position with single-digit growth with EMEA and Latam behind. Asia is looking good, but it's obviously a smaller business there.

Artem Chubarov (Redburn)
Thanks very much.

Operator
Your next question comes from the line of Ranulf from Citi. Please go ahead.

Ranulf Orr (Citi)
Hi, morning all. Just two, please. Firstly, just in Consumer Care, given the very strong January, would you mind giving the monthly year-on-year growth or if not that, at least the delta and growth between January and March so we can understand the exit rate a little better? And secondly, just on these new delivery systems you're bringing to the market, can you kind of give an idea of what the contributions from those might be in terms of sales over the year? Thank you.

Steve Foots
Just say the first question again.

Ranulf Orr (Citi)
Could you give the monthly growth in Consumer Care please? Three, two, one, given the very strong January, just to understand the sort of the phasing of it.

Steve Foots
It's a good question, it's a good try, as you say. We are trying to give you quarterly and now you're asking for monthly. So, look, it's fine. We're not seeing a massive change month to month. I think I would say that it's not falling off the end of the cliff far from it. So that's why we're still saying we remain cautiously optimistic. So we look at the order intake. I think the other point, the broad point I'd make in consumer is, we're getting back to a normalized order visibility which is important. I think our customers now are largely through this destocking period. So for us better visibility in the near term, we're getting more accurate assessments of that. But we're still coming through the final stages of a pandemic effect. And I think, quite rightly, our customers are quite cautious as well. And everybody's a bit cautious until we see the really firm trends coming through. But overall, we're pleased and encouraged with the progress.

David Bishop
On the pharma pipeline, we gave a number of examples in the full-year pack where each of those new delivery system technologies that we're bringing to market have peak annual sales values of around about £20 million. Now, those peak annual sales values are not in 2024, but a number of them will start to generate some revenue as 2024 progresses. So individually, they're not material, but we hope they'll be a decent contribution from those new delivery technologies in 2024.

Ranulph Orr (Citi)
Thank you.

Operator
The next question comes from the line of Isha Sharma from Stifel. Please go ahead.

Isha Sharma (Stifel)
Hi, could you please quantify the growth in your drug delivery systems within health care? And just a small follow-up on that would be, how do you account for FX pricing from the Argentinian peso? And if you could help us with the extent of that within the organic growth, please. Thank you.

David Bishop
Isha, hi, it's David here. On the drug delivery platforms, the areas where we're seeing continued growth are in nucleic acid delivery and protein delivery. So in line with what Steve said at the beginning that the areas of strategic focus for us are continuing to grow. And the area that we've seen some sequential decline is in adjuvant systems because of the COVID normalisation and then in small molecules because of the destocking in consumer health. And I'll hand on to Louisa to talk about FX.

Louisa Burdett
Just broadly on FX, we've got two drivers just in our general business. Obviously, we give you the framework around FX and what a movement in the dollar does. We've had a little bit of adverse FX in the first quarter. Steve talked about £4 million adverse impact at PBT level. The rates are coming back in our favor so we're still fairly neutral on that. On the Argentinian piece clearly a little bit more difficult to predict. We're still obviously managing some probably single-digit million risk there for the year, but the local team are moving, to the degree that we haven't done it yet, to dollar-based pricing. So we should come back into line with a more easy-to-predict sort of framework and heuristic. So dollar-based pricing where we can.

Isha Sharma (Stifel)
Thank you.

Operator
The next question comes from the line of Gunther Zechman from Bernstein. Please go ahead.

Gunther Zechman (Bernstein)
Good morning all. Thanks for taking my questions. The first one, could you just remind us what you expect for non-COVID LNP revenues for this year, please? The second one, companies like Unilever recently stepping away or delaying their mid-term ESG targets. Could you just give us give some flavour how that impacts the growth and your conversations with those customers, please? And then lastly, I know you don't guide for cash flow, but given the growth is improving and Steve, what you mentioned earlier about improving utilisation rates in the plant, what should we expect for inventory build for this year please?

Louisa Burdett
So, start with the inventory question on cash. The cash flow in the quarter has been positive. Obviously, we had that tailwind from the COVID-19 debtors in January, but our stock management continues to be good. We will be building stock as we go through the year, particularly as we try to balance the crop recovery, but our working capital guidance from the end of the year remains unchanged.

Steve Foots
The non-COVID pharma revenue growth rates are mid to high single-digit.

David Bishop
We think we'll be a bit below our sort of longer-term run rate because of the headwinds that we've described. But mid to high single digit is what we expect in the non-COVID pharma business.

Steve Foots
Just your point on Unilever, look, we had our big cosmetics exhibition last week, which gave us the opportunity, to sort of meet all of our senior customers. And the themes are slightly different for each of them as you'd expect because their brands are positioned slightly differently as well. But the big common theme is around sustainability. Everybody's moving to lower carbon in their products and trying to develop brands in that way. And that's giving us a lot of reassurance that our strategy of moving to sustainable ingredients is the right one. So we're on our way, if you like with them. I think each one has their own opportunities and their own challenges. So it's difficult to try and draw too many specific themes around individual companies if that's okay.

Gunther Zechman (Bernstein)
Thank you.

Operator
There are no further questions in the queue, so I will now hand the call back over to your hosts for any closing remarks.

Steve Foots
Thanks for the questions, everybody. So quarter one has been and gone. We'll guide you through each of the subsequent quarters but encouraging start in some of our businesses particularly Consumer Care and IS, but we've still got challenges with Life Sciences with crop and in consumer health primarily. So we'll monitor all of that with you and I'll update you again in the middle of the year more fully. So thanks, everybody, we'll see you then.

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