Reasons to invest in Croda

A proven strategic direction

Capturing growth opportunities presented by megatrends

Long-term technology trends such as the demand for sustainable ingredients and the move to biologics are presenting significant opportunities for growth. We have aligned our portfolio with these megatrends, enabling us to help address some of the world's biggest challenges.

To find out more visit our website at www.croda.com

A strategy built on sustainability and innovation

Our strategy builds on our heritage of producing innovative ingredients from natural raw materials, combining sustainability and innovation to deliver growth.

To find out more see pages 26-27

Visit Croda.com to see our business in action

Chief Executive's statement

Strategic delivery in a challenging environment

"Despite the impact of the prevailing macroeconomic uncertainty, the technology trends that will drive our future growth have not changed with an accelerating transition to sustainable ingredients and biologics."

Steve Foots
Group Chief Executive

A challenging year with destocking and a weaker macro environment

Croda's performance in 2023 reflects challenging market conditions throughout the year with customer destocking and weaker economic conditions. It follows a record performance in 2021 and 2022 when the Group significantly benefitted from customers building up inventory levels in the face of strong consumer demand, escalating prices and supply chain disruption. As central banks raised interest rates to manage inflation and market conditions softened, customers subsequently reduced inventory levels, albeit at different times across the different market segments and geographies that we serve. For Croda and the wider chemical industry, this resulted in a prolonged period of destocking that was unprecedented in the breadth of its impact across most markets, compounded by a slower economic recovery in China than some of our customers had anticipated.

As a consequence, sales volumes were down across all sectors. Adjusting for the divestment of the majority of the Performance Technologies and Industrial Chemicals (PTIC) business to Cargill on 30 June 2022, Group sales fell by 11% on a pro forma basis to £1,694.5m (2022 pro forma (pf): £1,898m), comprising positive price/mix, lower volumes, a contribution for the Solus Biotech acquisition completed in July and a small headwind from currency translation.

In 2023, average customer inventories were below 2022 levels but remained elevated compared to pre-pandemic levels. In Consumer Care, indications are that destocking has largely worked its way through the supply chain with a slow improvement in sales volumes in the year. By contrast, weak industrial demand globally impacted Industrial Specialties where volumes remained weak. Similarly, customers in agriculture markets continued to reduce inventory levels throughout the second half year having started destocking in the second quarter, later than in other markets. In Pharma, our ability to react quickly with valuable lipid technology allowed us to support mRNA vaccine sales through the Covid-19 pandemic. Inevitably, as Covid demand fell, this resulted in lower shipments in 2023, contributing to just over half of the Life Sciences variance from prior year, but we still supplied c.$60m of Covid lipids in 2023 (2022: c.$120m). The Covid experience did allow us to establish our technology and provided us with valuable insights, facilitating resilient non-Covid sales as customer drug pipelines continue to develop.

Significant volume declines across most of our markets at a similar time led to low levels of capacity utilisation at our manufacturing sites, particularly those that produce ingredients for multiple business units, with negative operating leverage impacting profit margins. Whilst there are likely to be some bounce-back costs as trading normalises, there are also opportunities for margin expansion from higher sales volumes and improved mix particularly if the recovery is broad-based across our markets.

IFRS operating profit was £247.5m (2022: £444.7m) and adjusted operating profit was £320.0m (2022 pf: £476m), adjusting for the one-off exceptional items outlined in the Finance review. The adjusted operating margin of 18.9% (2022 pf: 25%) was negatively impacted by the operating leverage effect of the reduction in volumes and lower sales of high-margin lipid systems for Covid-19 vaccine applications. Profit before tax (on an IFRS basis) was £236.3m (2022: £780.0m), with the prior year including a gain on the PTIC business divestment of £356.0m, and adjusted profit before tax was £308.8m (2022 pf: £463m).

Despite the impact of the prevailing macroeconomic uncertainty, the technology trends that will drive our future growth have not changed with a continued transition to sustainable ingredients and biologics. We have successfully realigned our portfolio with these megatrends and are making strategic progress with continued investment through the downturn in R&D and capacity. Demand for innovation has remained strong among our customers, which will be key to driving a recovery in Croda's performance as the macro-environment improves. Sales of New and Protected Products (NPP) held up well at 34% of total sales (2022: 35%), with an increase in the proportion of NPP sales in Consumer Care. Customer demand for our ingredients that are differentiated by their sustainability characteristics has also been resilient with sales of ECO surfactants, for example, up by more than 20% year-on-year.

Our commitment to sustainability is demonstrated by the progress we have continued to deliver in our non-financial performance. We remain on track to meet our 2030 Science Based Targets for emissions reduction, the Croda Foundation has already sustainably improved the lives of more than 22 million people and we delivered more than 4,500 hours of training to leaders as we embed safety as a value. Our sustainability leadership was recognised by CDP, which awarded us leadership status for the first time, complementing our long-standing triple A rating from MSCI.

Managing challenging market conditions

To mitigate the impact of tough trading conditions, we took some immediate actions to actively manage cash flow and address costs to protect profitability, while increasing customer sales activity to drive incremental sales growth. Production schedules were optimised to meet lower demand, reducing energy and freight costs. Underlying employee costs were broadly flat as inflation-based salary increases were offset by a hiring freeze and natural attrition. In addition, Group margin benefitted by one and a half percentage points due to negligible charges for variable remuneration. Cash flow improved through proactive management of working capital and our balance sheet remains strong, enabling us to pay an increased full year dividend and to continue to invest the £665m proceeds from the divestment of PTIC, the business we sold in 2022.

Alongside these temporary cost reduction measures, we have been driving improvements that will deliver sustained benefits to our operational effectiveness over the longer term. Priorities have included consolidating our site footprint and delivering our 'doing the basics brilliantly' programme to drive ongoing efficiencies. This programme will improve customer experience and employee productivity through a combination of customer insights, digital technology, and streamlined processes. Our customer net promoter score (NPS) has improved further from +23 in 2022 to +34 in 2023.

Following rapid portfolio transition in recent years through the acquisitions and divestments we have made, a new organisational structure has been in place since the start of 2024 to further streamline our operating model. Previously, the Consumer Care and Life Sciences sectors were responsible for strategy whereas the regions were responsible for performance. Now, all regional teams, including sales, R&D, marketing, customer service and manufacturing, report directly into Consumer Care and Life Sciences. The Presidents of these sectors are now fully accountable for their performance and strategy including innovation, sustainability and the acquisition of technologies aligned with our strategic priorities. This clarifies accountability, simplifies the organisation for our employees, is more cost efficient and will ensure we deliver faster and more effectively for our customers, positioning us well to take advantage of the recovery.

Regional summary

Key drivers of performance were similar globally in 2023, notably a slow but steady improvement in Consumer Care in the second half year as customers worked through heightened inventory levels but a weakening performance in Life Sciences mainly driven by rapid destocking by Crop Protection customers which began in the second quarter. Performance in Asia reflected these global drivers, with Consumer Care improving and Life Sciences weakening during the year. Despite demand in China not recovering as quickly as some of our customers had anticipated, our direct Consumer Care sales to China were robust, partly owing to strong relationships with regional customers who value our innovation expertise. Sales fell in North America although the declines were less significant in the second half year and we began to win back some sales in Consumer Care which were lost in 2022 through our inability to supply ingredients for certain periods. Consumer Care sales grew in Europe, particularly in Beauty Care and Home Care. Latin America was the strongest region but saw adverse impacts from destocking in Crop Protection as well as significant currency movements during the second half year.

Sector summary

Consumer Care – leadership in innovation and sustainability driving demand

Consumer Care sales fell 1% to £886.1m (2022: £897.8m) with strong double-digit percentage sales growth in Fragrances and Flavours (F&F) but lower underlying sales in Beauty Actives, Beauty Care and Home Care. Price/mix was up 2%, mainly due to a positive mix impact from Beauty Actives, with pricing broadly flat. Sales volumes were down 4% year-on-year but were up 9% in the second half year compared with the second half of 2022. Acquisitions added 1% due to sales of ceramides following the Solus Biotech acquisition, with foreign currency translation a small headwind for the full year.

IFRS operating profit was £127.8m (2022: £144.5m) and adjusted operating profit was £160.3m (2022: £204.7m), resulting in adjusted operating margin reducing to 18.1% (2022: 22.8%). Four and a half percentage points of the margin decline was due to the operating gearing effect of continued weak volumes in Consumer Care, compounded by lower volumes in Life Sciences and Industrial Specialties which share the same manufacturing assets, with overheads therefore allocated across all sectors. Two percentage points of the margin decline was due to weaker mix, primarily as a result of strong growth of lower margin F&F sales, with the lower variable remuneration charge and earn out accrual release providing a two percentage point offset.

In Consumer Care, our leadership in sustainability and innovation continues to drive customer demand for Croda's differentiated ingredient portfolio. NPP improved to 42% of total sales (2022: 41%) and sales of sustainable ingredients such as ECO surfactants and biotech-derived ingredients were stronger than other ingredients in our portfolio. To support demand for lower carbon ingredients, we can now provide carbon footprint data for three quarters of the Beauty Care portfolio so that customers can quantify the benefits associated with using our ingredients in their products. Sales to Asia exceeded sales to North America for the first time with significant potential for further growth. We are prioritising the region for investment in R&D and manufacturing, particularly in China and India where underlying sales grew 12%.

The stand-out performer in 2023 was F&F which delivered 18% underlying sales growth, benefitting from its distinctive positioning in fast-growing markets and agile, cost competitive model. F&F sales were up in all product categories and established regions, with the Middle East particularly strong. F&F's excellent sales growth principally reflects its high exposure to local and regional customers outside North America and Europe, as well as sales synergies that are being realised under Croda's ownership.

In Beauty Actives, reported sales were up 4% or down 1% on an underlying basis (i.e. excluding the Solus Biotech acquisition). Positive mix helped offset weaker volumes as sales of Sederma active ingredients grew, particularly in China, whereas sales of lower value botanical ingredients fell. Beauty Actives supported customer product launches including the new Boots No7 Future Renew range and a new Deciem product that repairs scars caused by acne. Having completed our acquisition of Solus Biotech in July, we are excited about the opportunities that the addition of further fermentation-derived active ingredients, notably ceramides, are starting to open up.

Performance remained weakest in Beauty Care with sales down 11% driven by lower volumes. Our approach here is to manage sales volumes in the less differentiated parts of the portfolio to help base-load our manufacturing assets and cover fixed costs, while accelerating differentiation by driving innovation, enhancing the sustainability profile of our ingredients, and transitioning our manufacturing processes to biotech and other low carbon technologies. The 20% plus growth in sales of ECO surfactants during a challenging year, and a continued increase in sales of sulphate-free 'clean' surfactants, illustrate continued customer demand for bio-based, lower carbon and biodegradable ingredients.

The recovery of sales volumes in Home Care accelerated as the year progressed, with underlying sales down 1% year-on-year but up 12% in the second half compared with the second half of 2022. Once again it was sales of innovative ingredients differentiated by sustainability that led the way, including our range of biopolymers which extend the life of fabrics with future growth underpinned by a long-term contract with a key customer.

Life Sciences – continued progress building industry-leading positions in high-growth markets

Life Sciences sales were down 12% to £602.3m (2022: £682.3m), with approximately seven percentage points of the reduction due to lower sales of lipid systems for Covid-19 vaccine applications. On a reported basis, positive price/mix of 3% partly offset a 15% decline in volume, the majority of which was due to destocking by Crop Protection customers with a small effect from similar trends in consumer health. There was also a contribution from six months of phospholipid sales following completion of the Solus Biotech acquisition in July and a small foreign currency headwind.

IFRS operating profit was £131.7m (2022: £220.3m) and adjusted operating profit was £150.3m (2022: £229.4m), resulting in an adjusted operating margin of 25.0% (2022: 33.6%). Six percentage points of the margin reduction was the result of adverse price/mix mainly due to lower Covid lipid sales, and four percentage points was the result of the negative operating leverage effect of lower volumes, mainly in Crop Protection, partly offset by the benefit from a negligible variable remuneration charge.

Crop Protection is developing sustainable crop care solutions as well as delivery systems for biopesticides, launching two new delivery systems, one specially designed for biologicals and the second for drone delivery. Following an exceptional 2022, when Crop Protection delivered both strong double-digit percentage volume growth and price/mix, the business started the year with good momentum, but began to experience rapid customer destocking in the second quarter. Volume weakness continued throughout the second half year, to fall 21% year-on-year with a small offset from positive price/mix, resulting in sales falling 19% overall. In Seed Enhancement, most sales are derived from providing just-in-time enhancement services for vegetable seeds so the business only saw a limited impact from destocking, delivering 9% sales growth driven by strong structural growth trends. Seed Enhancement is winning market share through its leadership in microplastic-free seed coatings which are in high demand following the EU's decision to ban the use of microplastics in agriculture in the next five years.

Pharma continued to make good progress with its industry-leading position in biologics drug delivery as well as recent partnerships and new product launches further strengthening the pipeline of opportunities. Pharma sales fell 11% but grew 3% excluding lipid sales for Covid-19 vaccine applications. Whilst we were not immune from the challenges impacting the market, including customers reducing inventory levels, Covid normalisation and funding constraints for early-stage biotech companies, the breadth and diversification of our pharma portfolio enabled the business to deliver a resilient performance. Destocking primarily affected the heritage consumer health business where customer products are often sold over the counter, with lower Covid-19 demand adversely impacting Adjuvant Systems sales as well as lipids for Covid-19 mRNA vaccines. By contrast, drug delivery technologies for Small Molecule, Protein and Nucleic Acid applications continued to grow.

To drive the growth of Protein/Small Molecule Delivery we opened an applications centre in 'Genome Valley', Hyderabad, India, and launched our first processing aid for biopharma (technologies which are integral to the production of therapeutic proteins) which secured its first sales within three months of launch. The future growth of Adjuvant Systems will benefit from the launch of a new proprietary lipid-based adjuvant and two new adjuvant partnerships agreed with Amyris and BSI. One of these is for a sustainable squalene adjuvant that is produced by fermentation, which is already being qualified by three major vaccine companies. In Nucleic Acid Delivery, shipments of c.$60m of lipid systems to our principal Covid vaccine customers occurred as planned at the end of the fourth quarter, benefitting sector operating profit margin. Continued growth will be driven by the commercialisation of new nucleic acid drugs with the number in development continuing to expand, and Croda supporting most of those that specify a lipid delivery system. The strong medium-term growth trajectory for Nucleic Acid Delivery is likely to be realised in three phases: firstly, mRNA vaccines for infectious diseases, where we are working closely with the Big Pharma companies driving this development; secondly, oncology applications which require more targeted delivery systems; and thirdly, gene editing therapies such as a CRISPR treatment for sickle cell anaemia which we are supporting and was recently approved by the US FDA.

Industrial Specialties – contributing to the efficiency of our manufacturing assets

Following the PTIC divestment, the retained business became Industrial Specialties (IS), operating a supply contract to the new owner of the divested business and contributing to the efficiency of our shared manufacturing site model by helping to optimise utilisation rates. On a pro forma basis, sales fell 35% to £206.1m principally due to lower volumes, reflecting destocking and weak industrial demand globally, and limiting the ability of IS to help optimise site utilisation. Pro forma adjusted operating profit fell 78% to £9.4m as negative operating leverage compounded the impact of lower volumes. The impact of these adverse market conditions on the SIPO joint venture in China resulted in a goodwill impairment charge of £20.8m taken at the 30 June 2023 balance sheet date. Including the impairment charge, the reported IFRS operating loss was £12.0m (2022: £79.9m profit), with the prior period including the full contribution from the divested business.

Continued balance sheet strength

Our focus on active cash flow management in 2023 delivered excellent results with improved free cash flow reflecting a £29.1m working capital inflow (2022: £133.8m outflow) more than offsetting lower profit and higher capex. In particular, we focused on managing down our own inventories, with stock days falling by approximately 20% during 2023. We expect our finished goods inventories to be back to pre-pandemic levels by the end of the first quarter of 2024, mitigating the risk that selling from stock (manufactured from higher cost raw materials) has a detrimental impact on profit margins.

With improved free cash flow of £165.5m (2022 restated: £157.4m), our balance sheet remains strong and we closed the year with net debt of £537.6m (2022: £295.2m), including the £227.4m consideration paid on completion of the Solus Biotech acquisition in July 2023. The resulting debt leverage ratio was 1.3x (2022: 0.5x), within our one to two times target range, despite the lower EBITDA.

Given the challenging market conditions, we reviewed the pace of in-flight capital expenditure projects, as well as all new proposals for non-safety-critical projects, whilst continuing to invest in our refocused portfolio to drive profitable growth. This resulted in some capital expenditure originally planned for 2024 being delayed until 2025. Organic capital expenditure in 2023 was broadly as expected at £170.1m (2022: £138.5m), focused on growing our R&D capability, in Asia especially, and expanding our manufacturing footprint to increase capacity.

With our strong balance sheet, we have been able to continue to invest despite the weaker macroeconomic environment. R&D investment included a new Consumer Care laboratory in Shanghai, China and a new applications centre in Hyderabad, India to support growing demand for protein and small molecule delivery from pharma customers. With our Pharma business a top priority for capital allocation, we also opened an adjuvant systems lab in Denmark and are due to expand our R&D capabilities for nucleic acid delivery at Alabaster in the USA and in Singapore in 2024.

Alongside investments that help deliver the carbon reduction roadmaps that we have put in place for all Croda sites, we have also invested in capacity expansion focused on Asia, including starting construction of a new surfactants plant in Dahej, India, and the first stage of a £30m investment in a combined Beauty Actives and F&F manufacturing facility in Guangzhou to grow domestic sales in China. In addition to our typical capital investment of around 6-8% of sales, we are investing an extra £175m over the period 2021 to 2024 to scale up Pharma production, particularly to meet forecast market demand for new nucleic acid drugs which are widely expected to come to the market from 2025, with the US and UK Governments co-investing up to an additional £75m combined. We have invested over £110m in the programme to date. As a result of

Chief Executive's statement continued

> "We complement organic investment with selective acquisitions of adjacent technologies, particularly those which can accelerate our transition to greater use of natural raw materials or build new technology platforms, enhancing future growth."

the review of phasing of current capital projects, total capital expenditure is expected to fall slightly in 2024, but with heightened levels of capex (compared to the pre-2021 period) continuing through 2025 as the Pharma facilities are built and capacity in Asia comes on-stream.

We complement organic investment with selective acquisitions of adjacent technologies, particularly those which can accelerate our transition to greater use of natural raw materials or build new technology platforms, enhancing future growth. The acquisition of Solus Biotech from Solus Advanced Materials has excellent alignment with our strategic priorities, expanding our Asian manufacturing capability, adding a new biotechnology R&D hub in the region, and providing our Beauty Actives and Pharma businesses with access to Solus' existing biotech-derived ceramide and phospholipid technologies, and its emerging capabilities in natural retinol. We will drive sales growth by leveraging Croda's global selling network and formulation science expertise.

Capital deployment will be executed within our consistent capital allocation policy, set out in the Finance review. Alongside organic and inorganic investment, the policy provides for a regular and increasing ordinary dividend to shareholders, while operating an appropriate balance sheet. With 32 years of unbroken dividend progression, consistent distribution to shareholders is a critical consideration for the Board. Therefore, despite temporarily taking us outside our stated through-the-cycle payout ratio of distributing 40-50% of earnings, we have proposed a small increase in the full year dividend at 109p a share (2022: 108p). The Board is keeping the Company's future capital requirements under close review.

Strategy overview – megatrends intact; continued strategic investment through the downturn; well positioned for market recovery

Strategy overview

Despite the challenging market conditions in 2023, the technology trends that will drive our future growth have not changed with continued demand for sustainable ingredients and a continued transition from small molecule active ingredients to large molecule biologics. Through the acquisitions and divestments we have made in recent years, we have successfully realigned our portfolio with these megatrends and our strategy of combining sustainability leadership with market-leading innovation is unchanged.

In line with our Purpose of using Smart science to improve lives™, we enable customers to realise their sustainability ambitions through the application of our innovation and the creation of sustainable ingredients. We are reinforcing our sustainability leadership by reducing the adverse impact of our operations, by replacing fossil-based ingredients with bio-based materials, reducing emissions, promoting biodiversity and ensuring our sourcing activities make a positive contribution to communities in our supply chains. Our sustainability leadership delivers benefits that are increasingly valued by our customers; for example, we can now provide cradle-to-gate product-level carbon footprint data for approximately 1,300 of our ingredients so that customers can quantify the benefits associated with using them in their products. We are continuing to expand this data set to cover more of our ingredient portfolio and a broader range of sustainability factors.

Innovation is at the heart of what we do, creating new market and technology niches. We filed more than 100 new patents in 2023 and have stepped up our rate of innovation through more external partnerships, for example with Amyris and BSI for sustainable vaccine adjuvants. Even in the unprecedented market conditions that we have seen this year, customers are continuing to invest in new product development, drawing on Croda's deep scientific expertise and application-focused innovation. The foundation of our innovation model is internal R&D investment, applying the expertise of our scientists at our global innovation centres to meet customer needs. Our R&D teams now report directly into Consumer Care and Life Sciences, ensuring that our priorities are customer driven. This is complemented by 'big bet' projects often delivered with partners from our open innovation network which provides access to universities and SMEs, helping develop new intellectual property.

Strategic priorities

We are implementing specific strategic priorities to ensure our refocused portfolio delivers consistent top and bottom-line growth. Alongside our sector strategies we are (1) scaling biotech, (2) exploring acquisition opportunities to supplement organic capital deployment, (3) investing in fast growth in Asia, and (4) improving our customer and employee experience through our 'doing the basics brilliantly' programme.

'Scaling biotech' will transform our approach to sustainability, particularly in reducing customers' scope 3 carbon emissions. Projects are underway to develop bio-based fragrance ingredients, prioritising aroma chemicals which are used in a high proportion of our fragrance references. Our Beauty Care business is adding biotech-derived surfactants to our existing ECO range, and Beauty Actives is launching novel anti-ageing actives developed through collaboration between our biotech and high throughput screening centres in the UK, France and Canada. This is one example of how Croda is reinforcing its leadership in biotechnology, established over more than a decade in plant cell cultures and fermentation, and now being enhanced by investment in processing for scale up, biocatalysis and synthetic biology.

We are supplementing our organic investment with 'acquisitions', where our global scouting network identifies potential adjacent technology opportunities in Consumer Care and Life Sciences with the acquisition of Solus Biotech in South Korea completed in the year.

There are significant emerging opportunities for Croda across Asia particularly in consumer care and pharmaceutical markets. We are driving 'fast growth in Asia', by investing in innovation and sales resource plus selective expansion in manufacturing.

Our 'doing the basics brilliantly' programme is simplifying our operating processes to improve employee productivity and driving efficiencies within our well-established customer-centric model including a new online ordering portal complemented by more self-serve data for customers. The programme is delivering good results including a 6% improvement for 'ease of doing business' alongside a further increase in overall net promoter score in our latest customer survey.

Sector strategies

Our sector strategies are to 'strengthen to grow' Consumer Care and 'expand to grow' Life Sciences. We are 'strengthening to grow' Consumer Care to be the most innovative, sustainable and responsive solution provider globally. Even in the current trading environment, demand for innovation remains strong and we are continuing to enhance our portfolio by adding more fermentation-derived ingredients and high-performance replacements for fossil-based products. Similarly, we are broadening our unrivalled ability to substantiate ingredient claims to include product-level carbon footprint data, incorporating the impact of decarbonisation to 2030. Finally, the continued fragmentation of consumer markets plays to our strengths as we partner with customers large and small globally, enabling smaller customers to partner with us to launch their products quickly.

The move to biologics is the key structural driver of growth in both pharmaceutical and agriculture markets over the next decade, and we are 'expanding to grow' Life Sciences to empower biologics delivery. In agriculture, this move will enable greater targeting of actives and reduced biodiversity impact. In this market we are positioned as an innovation partner for delivery systems, creating new systems specifically for the delivery of biopesticides and meeting the sustainability challenges of conventional pesticide delivery. In pharma markets, the move from chemical to biological active pharmaceutical ingredients is already underway and we have developed a portfolio focused on segments with the highest development and innovation needs. As a result, our pharma portfolio has a well-diversified risk profile and opportunity set, which we are expanding through new technologies from our own innovation pipeline and via partnerships. The competitive positioning of our Pharma business is extremely strong, providing delivery systems that are critical to next-generation drugs and with excellent customer relationships spanning drug discovery through to commercial supply.

Future performance drivers

In Consumer Care, average customer inventory levels have fallen and volume recovery should be an important driver of near-term performance, particularly in Beauty Care which has broad market exposure and is larger than the other business units. Our approach in Beauty Care is to manage sales volumes in those parts of the portfolio where there is less differentiation to underpin consistent plant utilisation while also accelerating portfolio differentiation through innovation, sustainability and biotech. More recent additions to Consumer Care, including ceramides in Beauty Actives – which have significant growth potential, and the F&F business – which is delivering impressive sales growth albeit at margins which are below the average for Consumer Care, can also influence our future performance. Geographically, Asian consumer care markets are likely to grow faster than the rest of the world, particularly in India and China. While our direct sales to China have remained robust, a broad-based recovery in Chinese consumer spending and travel would underpin improved global demand for consumer care products.

In Life Sciences, an end to destocking in Crop Protection markets would be an important driver of improved performance in the near term. However, the timing of this inflection point is uncertain as destocking started later, and customer concentration is higher, so demand can be determined by the buying decisions of four or five major customers. In addition, agriculture markets are seasonal, so a lack of demand can mean that a whole season is missed, but conversely when a recovery comes it is likely to have a more immediate effect. Historically, the market for field crop seeds experiences changes in demand later in the cycle, so the market environment could be tougher in 2024, but for Croda, this risk is mitigated by our focus on vegetable seeds as well as market leadership in microplastic-free seed coatings and the incremental opportunities that are being created by regulation change.

The challenges that faced pharmaceutical markets in 2023, including the reset of demand post Covid-19, destocking and contraction in the availability of early-stage funding, appear to be temporary rather than structural, but their effects could continue into 2024. Over the longer term, accelerating growth and margins will be driven by incremental revenue from our own innovation pipeline and the commercialisation of new biologic drugs. The drivers of future performance in Pharma are therefore the rate of growth of our new delivery systems and vaccine adjuvants that we are bringing to the market, many of which are already generating revenue and have meaningful peak sales projections, and the pace of approval of new mRNA drugs and vaccines, a high proportion of which we are supporting during clinical trials and have invested capital in to be able to produce at scale when launched.

Outlook

Consumer Care has started the year well and we are cautiously optimistic about the improving demand trend we experienced in January. Within Life Sciences, we expect the non-Covid Pharma business to grow but that destocking will continue in Crop Protection. Demand in Industrial Specialties is expected to remain weak.

Given the ongoing uncertainty in our end markets, the recovery trajectory for each of our business units remains difficult to predict and the range of possible outcomes in 2024 is therefore wider than usual at this stage of the year. Overall, however, the Group expects to deliver mid to high single digit percentage sales growth in 2024, excluding the c.$60m of Covid-19 lipid sales in 2023, with higher sales volumes more than offsetting lower price/mix.

We expect 2024 Group adjusted operating margin to be two to three percentage points lower than 2023 due to the following:

- Different business mix effects year-on-year, with no Covid-19 lipid contribution and continued strong growth in Fragrances and Flavours.
- Low overhead recovery is expected to persist as sales volumes remain depressed in Crop Protection and Industrial Specialties, two of the three businesses with the highest production volumes, alongside Beauty Care.
- To support the return to sales growth, the cost base will reset back to a more normalised level from its low point in 2023. This will include the likely unwind in 2024 of the c.£25m benefit we saw in 2023 from a negligible variable remuneration charge. Some of this will be offset by modest cost savings from our recent reorganisation.
- We will continue to invest to support our long-term strategy. Customer interest in innovation and sustainable ingredients remains strong, despite the current destocking cycle.

Using these assumptions and at current exchange rates, we expect Group adjusted profit before tax to be between £260m and £300m in full year 2024.

Croda will report sales performance quarterly during 2024 and we will provide an update on first quarter trading at the AGM on 24 April 2024. Croda expects to return to its normal cycle of half yearly reporting in 2025.

With our strong balance sheet, improving cash flow and consistent investment in our refocused portfolio, Croda is well positioned to take advantage of the demand recovery when it occurs. We expect the Group's performance to accelerate from 2025, generating continued increasing returns for our shareholders.

Steve Foots
Group Chief Executive

The Strategic Report was approved by the Board on 26 February 2024 and signed on its behalf by Steve Foots.

We use a number of Alternative Performance Measures (APMs) to assist in presenting the information in this report. For detail on any APMs used see the Finance review on page 50.