

# Croda International Plc: 2020 Annual Results

2 March 2021



# Cautionary statement and definitions

## Cautionary statement

This review is intended to focus on matters which are relevant to the interests of shareholders in the Company. The purpose of the review is to assist shareholders in assessing the strategies adopted and performance delivered by the Company and the potential for those strategies to succeed. It should not be relied upon by any other party or for any other purpose. Forward looking statements are made in good faith, based on a number of assumptions concerning future events and information available to the Directors at the time of their approval of this report. These forward looking statements should be treated with caution due to the inherent uncertainties underlying such forward looking information. The user of this review should not rely unduly on these forward looking statements, which are not a guarantee of performance and which are subject to a number of uncertainties and other facts, many of which are outside the Company's control and could cause actual events to differ materially from those in these statements. No guarantee can be given of future results, levels of activity, performance or achievements.

## Adjusted results

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

## Constant currency results

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

## Underlying results

Underlying sales and operating profit reflect constant currency values adjusted to exclude the impact of acquisitions. They are reconciled to statutory sales and operating profit in the Finance Review.

## Other definitions

- The Core Business comprises Personal Care, Life Sciences and Performance Technologies.
- Return on sales is adjusted operating profit divided by sales, at reported currency.
- Net debt comprises cash and cash equivalents (including bank overdrafts), current and non-current borrowings and lease liabilities.
- The leverage ratio is the ratio of net debt to Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) adjusted to include EBITDA from acquisitions is the last 12 month period. EBITDA is adjusted operating profit plus depreciation and amortisation.
- Free cash flow is EBITDA less movements in working capital, net capital expenditure, payment of lease liabilities, non-cash pension expense, and interest and tax payments.

## Alternative performance measures

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



## Agenda

- 2020 highlights
- Financial performance
- Strategic update
- Q&A

# 2020 highlights



**Steve Foots** – Chief Executive Officer

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# Strong strategic delivery built on resilient financial performance

## Resilient financial performance

- Limited adverse financial impact from COVID-19
- Back to growth in H2; growth acceleration in Q4
- Resilient profit performance
- Robust free cash generation
- Increase in full year dividend

## Strong strategic delivery

- Purpose-led: Smart science to improve lives™
- Ambitious 2030 sustainability targets
- Accelerated organic investment
- Completed two key acquisitions
- Over 80% of profit from life science and consumer markets

# Our response to COVID-19

## Delivering for all our stakeholders



### Employees

No job losses, furlough or salary reductions



### Local Communities

Financial assistance provided



### Customers and suppliers

Flexible payment terms



### Shareholders

All dividends paid

## Investing in our future

### Purpose / Sustainability

Decarbonisation investment

### Expanding Life Sciences

Transforming drug delivery: capex; Avanti

### Strengthening Personal Care

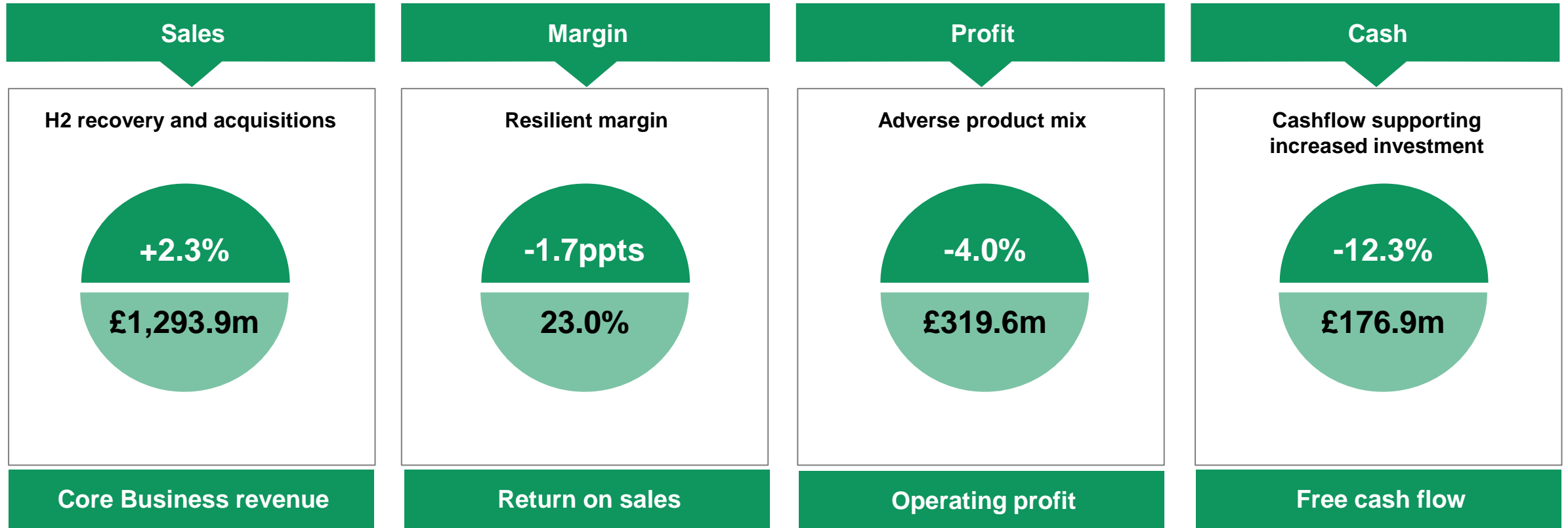
Iberchem

### Fast grow China

>15% increase in resourcing

**Objective: live up to our Purpose – Smart science to improve lives™**

# 2020 – a resilient financial performance



Change in sales and operating profit in constant currency.

# Sales recovery in Q4; another record year for Life Sciences

## Life Sciences

- Record sales and profit driven by Health Care and Seed Enhancement
- Crop Protection ahead (before planned product withdrawals)
- Delivering components for Pfizer-BioNTech COVID-19 vaccine

## Personal Care

- Sales recovered month-on-month from May; underlying Q4 sales in line with prior year
- Margin impacted by adverse mix – Beauty Actives sales lower as prestige channels closed
- Iberchem acquisition unlocks significant growth and revenue synergies

## Performance Technologies

- Resilient sales – home care and packaging demand; overall return to growth in Q4
- Profit impacted by adverse mix and operating leverage
- Redeploying capital into renewable technologies and Asia expansion



# Financial performance



Jez Maiden – Chief Financial Officer

# Resilient performance despite impact of pandemic

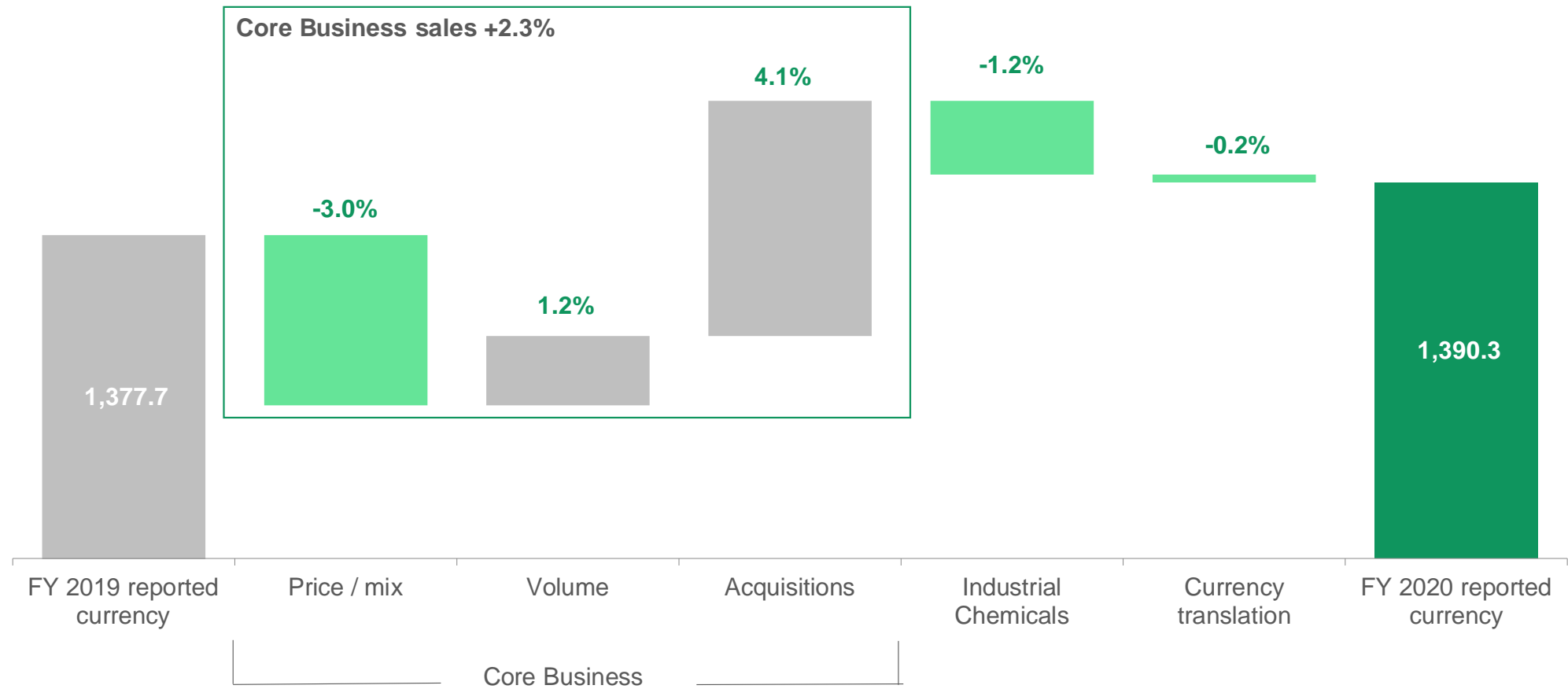
<b>Adjusted results, £m</b>	<b>2020 reported</b>	<b>2019 reported</b>	<b>% change</b>	<b>% change constant currency</b>
<b>Sales</b>	1,390.3	1,377.7	0.9%	1.1%
<b>Operating profit</b>	319.6	339.7	(5.9)%	(4.0)%
<b>Profit before tax</b>	300.6	322.1	(6.7)%	(4.8)%
<b>Return on sales</b>	23.0%	24.7%	(1.7)%pts	
<b>Basic EPS</b>	175.5p	185.0p	(5.1)%	
<b>Ordinary dividend declared</b>	91.0p	90.0p	1.1%	
<b>Free cash flow</b>	176.9	201.7	(12.3)%	

# IFRS result includes impact of acquisitions

£m	2020 reported	2019 reported
Adjusted PBT	300.6	322.1
Exceptional items	(5.8)	(10.7)
Acquisition costs	(11.7)	(0.3)
Amortisation of intangible assets	(13.6)	(8.8)
<b>Reported PBT</b>	<b>269.5</b>	<b>302.3</b>
<b>Basic EPS</b>	155.1p	172.8p

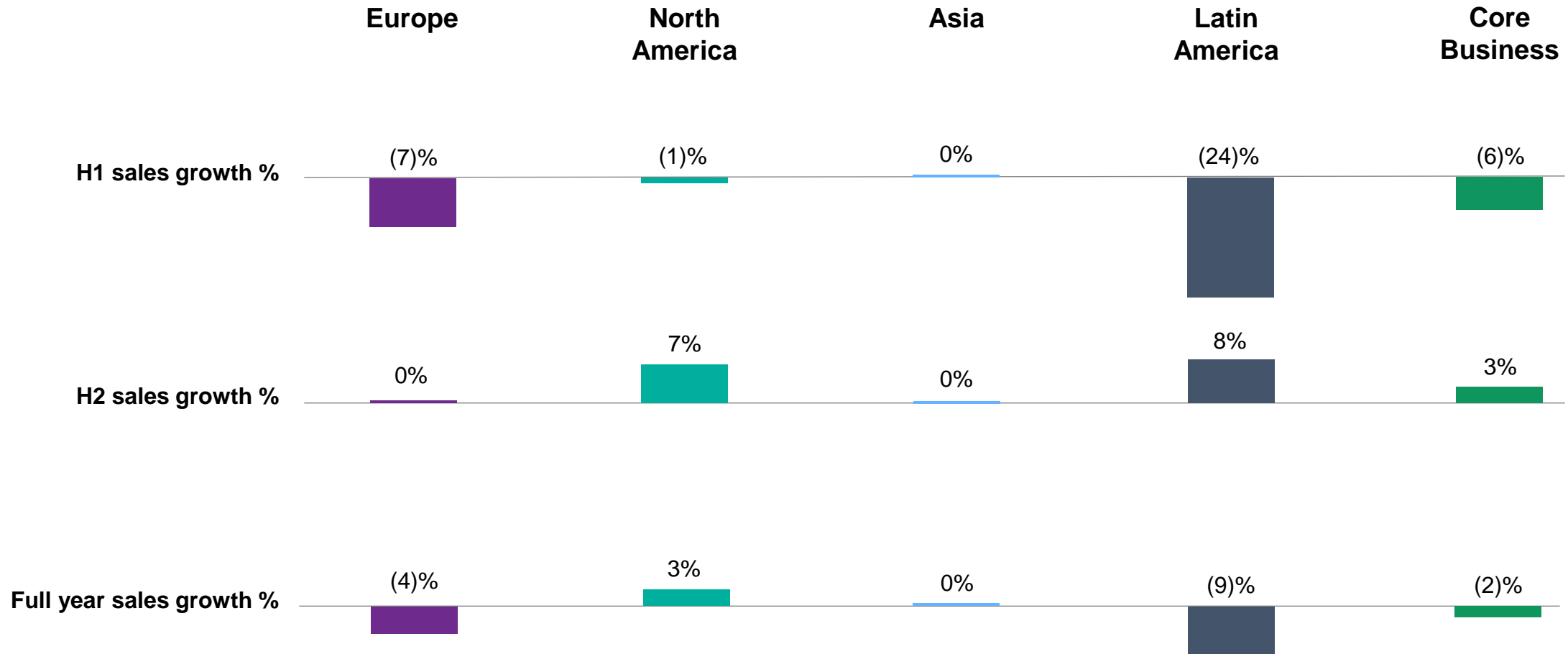
# Volume and acquisitions more than offset reduction in price / mix

Sales, £m



Change in sales in constant currency except where stated.

# Improved H2 underlying sales trend in all regions except Asia



Destination underlying sales for the Core Business.

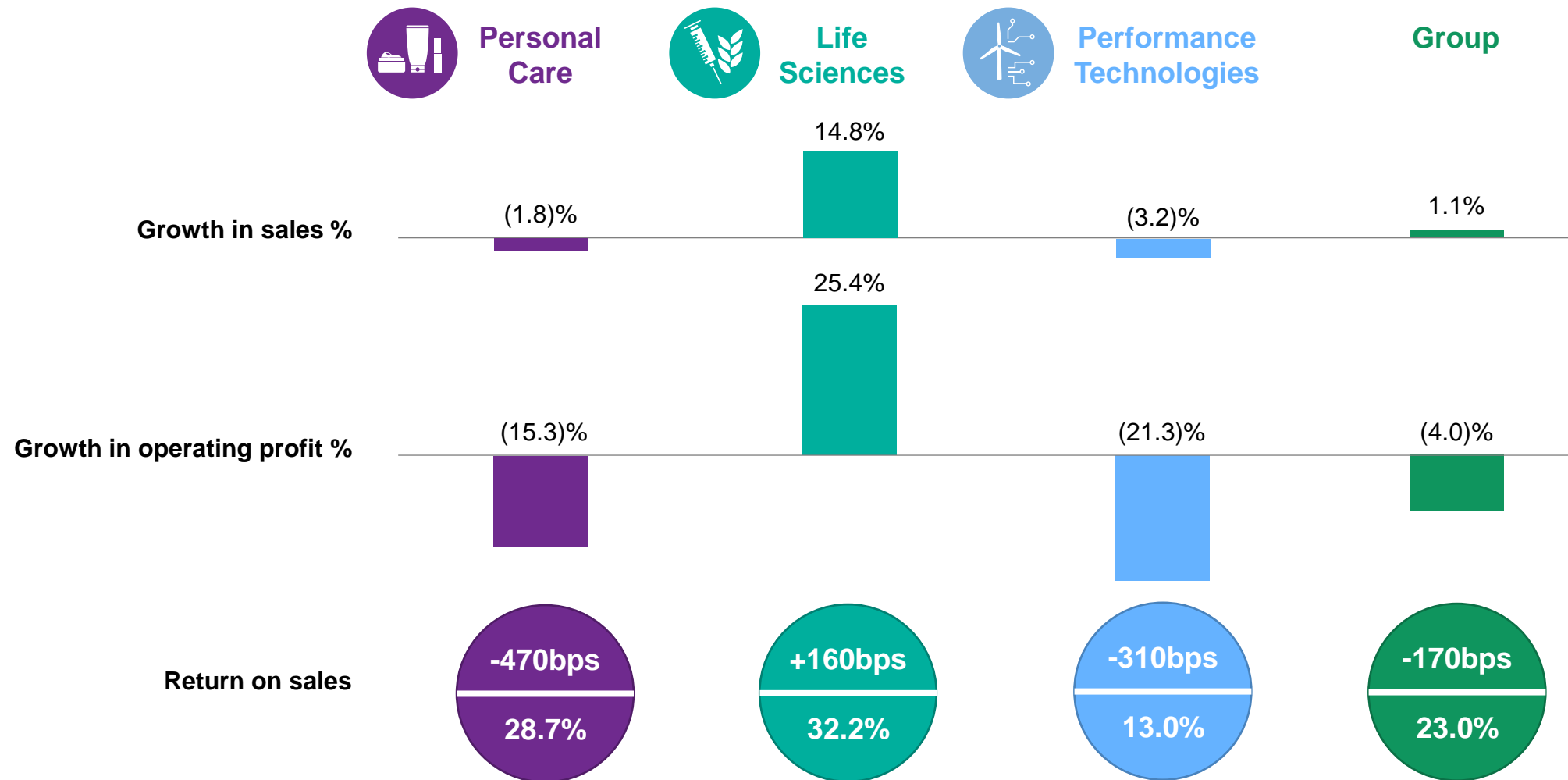


# Second half sales recovery enhanced by acquisitions

	H1 2020	H2 2020 <i>Underlying</i>	H2 2020 <i>Acquisitions</i>	H2 2020 <b>Total</b>	FY 2020
<b>Personal Care</b>	(9)%	(3)%	9%	6%	(2)%
<b>Life Sciences</b>	(2)%	16%	17%	33%	15%
<b>Performance Technologies</b>	(6)%	(1)%	0%	(1)%	(3)%
<b>Core Business</b>	(6)%	3%	8%	11%	2%
<b>Industrial chemicals</b>	(18)%	(9)%	0%	(9)%	(13)%
<b>Group</b>	(7)%	2%	8%	10%	1%

Change in sales in constant currency.

# Sector performance led by record year in Life Sciences

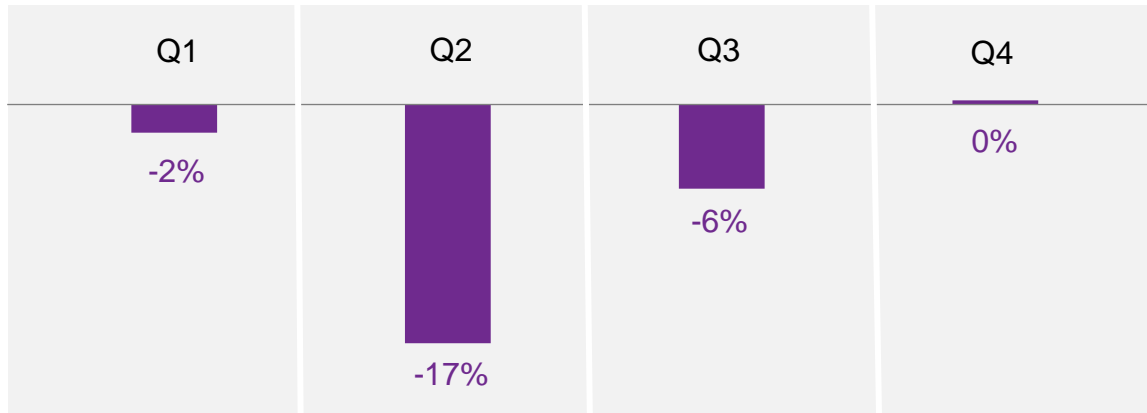


Change in sales and operating profit in constant currency.

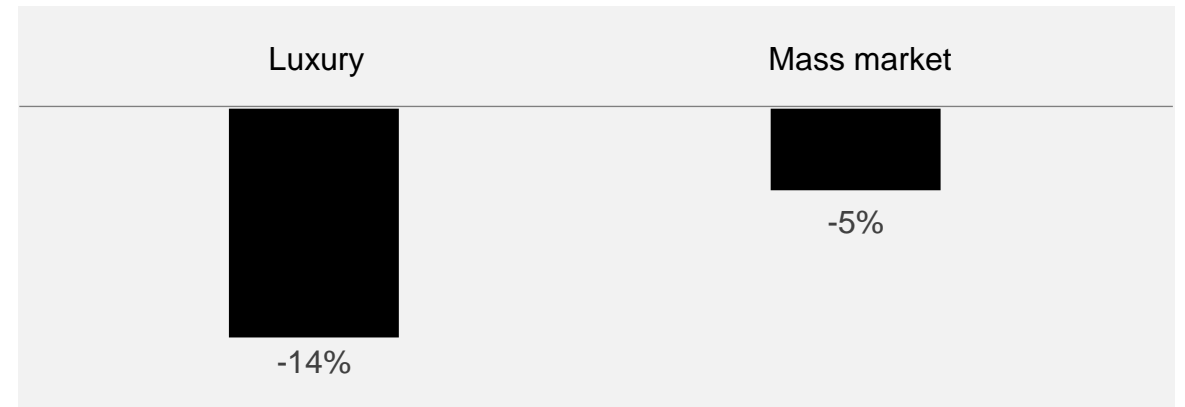
# Personal Care significantly impacted by COVID lockdowns



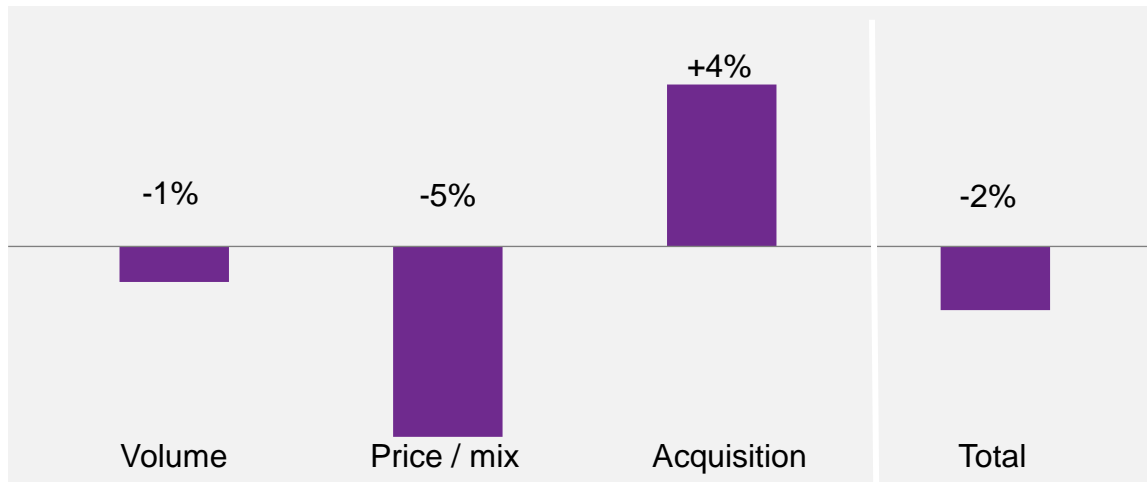
## Q4 underlying sales recovery



## L'Oréal worldwide beauty market estimates for 2020



## Full year sales reduction due to price / mix



## Highlights

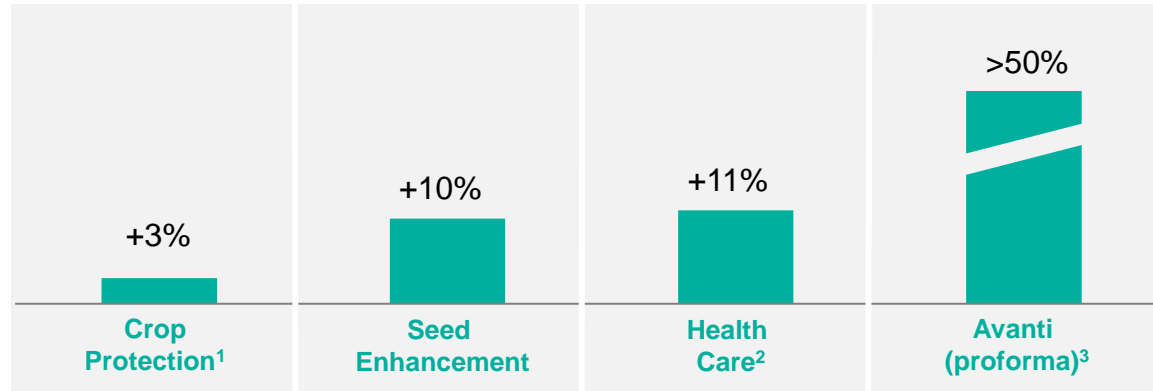
- Reduced demand for 'going out' products and prestige channel disruption resulting in adverse profit mix
- Month-on-month recovery for Croda since May 2020
- Europe and Asia subdued; Americas robust
- Strengthen to Grow strategy: Iberchem and Home Care set to add strong growth

Sales growth in constant currency. L'Oréal worldwide beauty estimates are 2020 provisional estimates at constant currency exchange rates sourced from L'Oréal 2020 annual results.

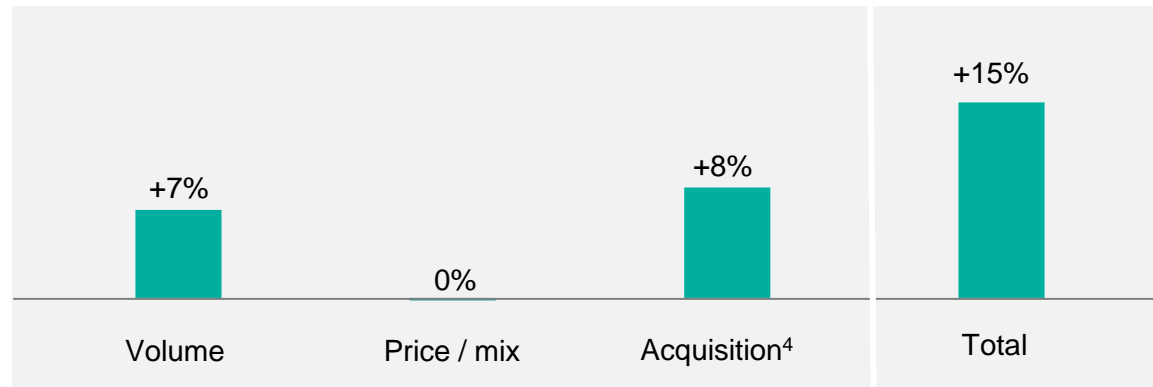
# Record performance in Life Sciences driven by patient health care



## Strong year-on-year sales growth in all businesses



## Full year sales increase driven by volume and Avanti acquisition



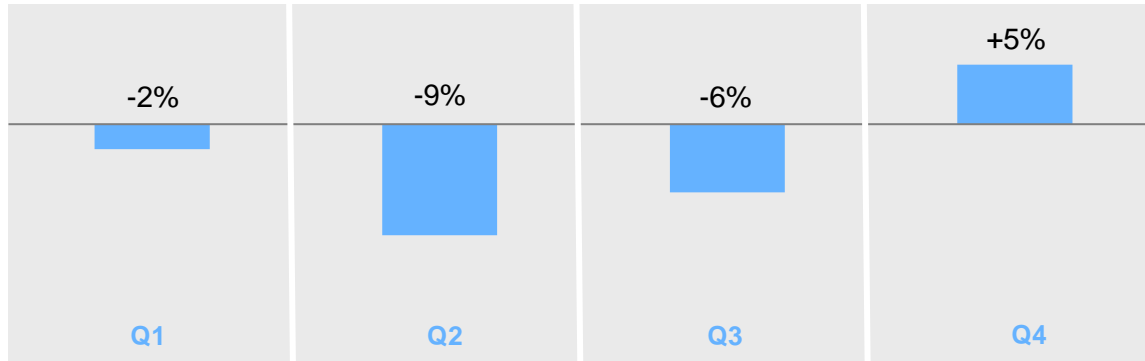
- COVID-19 creating new Health Care opportunities
- Continued growth in high-value niches, including speciality excipients and vaccine adjuvants
- Successful acquisition / integration of Avanti; new Pfizer-BioNTech vaccine contract
- Innovation-led growth in Crop Protection and Seed Enhancement
- Volume growth and margin progression
- Expand to Grow strategy: fast-growth, high-value businesses

Sales growth in constant currency. <sup>1</sup>Crop Protection excluding impact of planned withdrawal from NPE ingredients. <sup>2</sup>Excluding Avanti. <sup>3</sup>Avanti full year % increase includes period prior to Croda ownership. <sup>4</sup>For period of ownership only.

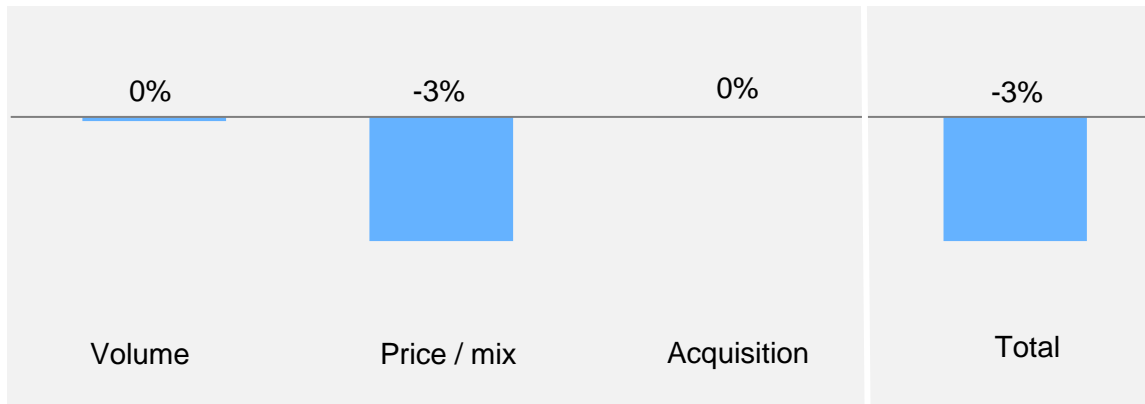
# Resilient sales in Performance Technologies in challenging markets



## Steady recovery in sales from Q2 low



## Full year sales reduction due to price / mix



- Q2 weakened, alongside auto / industrial plant closures
- Steady second half recovery – encouraging Q4 exit rate
- Marked variation in business performance
  - Weak Energy Technologies and Oil & Gas
  - Resilient Smart Materials and Home Care
- Profitability impacted by operating leverage, lower production volume and adverse product mix
- Refine to Grow strategy: reduce cyclicality, high tech/regional market growth, sustainability focus

Sales growth in constant currency.



# From Personal Care to Consumer Care



2020 adjusted results, £m	Sales			Adjusted operating profit		
	<i>As reported</i>	<i>New structure</i>	<i>Proforma</i>	<i>As reported</i>	<i>New structure</i>	<i>Proforma</i>
<b>Consumer Care</b>	475.9	527.8	666.6	136.5	146.5	171.0
<b>Life Sciences</b>	401.6	392.5	410.5	129.4	124.5	127.5
<b>Performance Technologies</b>	416.4	373.6	373.6	54.0	48.9	48.9
<b>Core Business</b>	1,293.9	1,293.9	1,450.7	319.9	319.9	347.4
<b>Industrial Chemicals</b>	96.4	96.4	96.4	(0.3)	(0.3)	(0.3)
<b>Group</b>	1,390.3	1,390.3	1,547.1	319.6	319.6	347.1

Growth in new markets

Geographic expansion

Bolt-on acquisitions

Proforma sales and operating profit show the 2020 outcome had Iberchem and Avanti been owned for the full year, not including changes in allocation of central and indirect costs.

# Robust cash generation supporting investment and dividend

## Clear capital allocation

1. Reinvest for organic growth
2. Regular dividends
3. Acquire technologies / adjacencies
4. Appropriate balance sheet / return excess capital

**Leverage target: 1-2x**

## Key sources and uses in 2020

Sources	£m	Uses	£m
EBITDA	388	M&A	(870)
New equity	615	Capex	(121)
New debt	237	Dividend	(116)
		Interest / tax	(88)

## Strategic investment delivered

- Regular capital programme: £90m pa
- Accelerated capital investment, primarily in Health Care
  - 2020: £30m
  - 2021: £40m
- Medium-term capex: 6% sales
- Key acquisitions in Health and Consumer
- Leverage: 1.8x

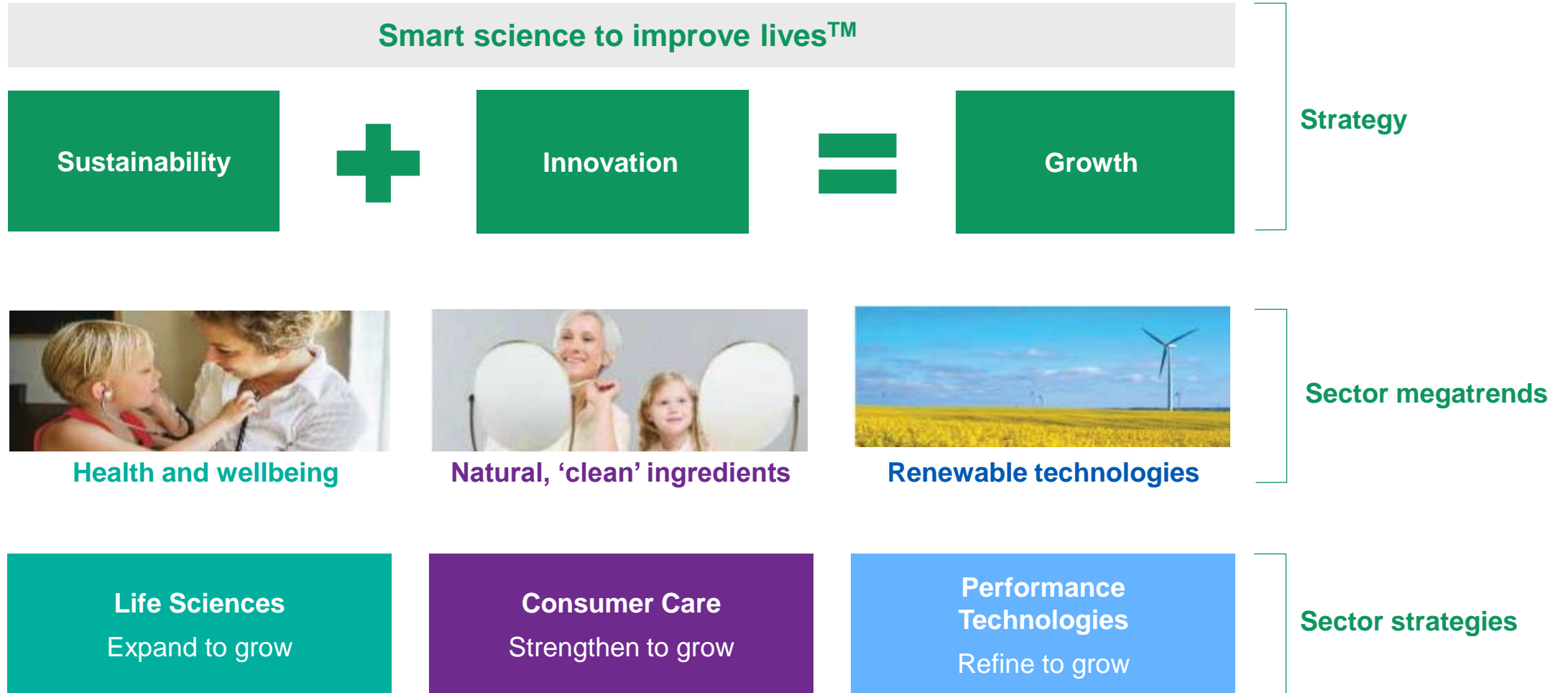
# Strategic update with Purpose



**Steve Fouts** – Chief Executive Officer

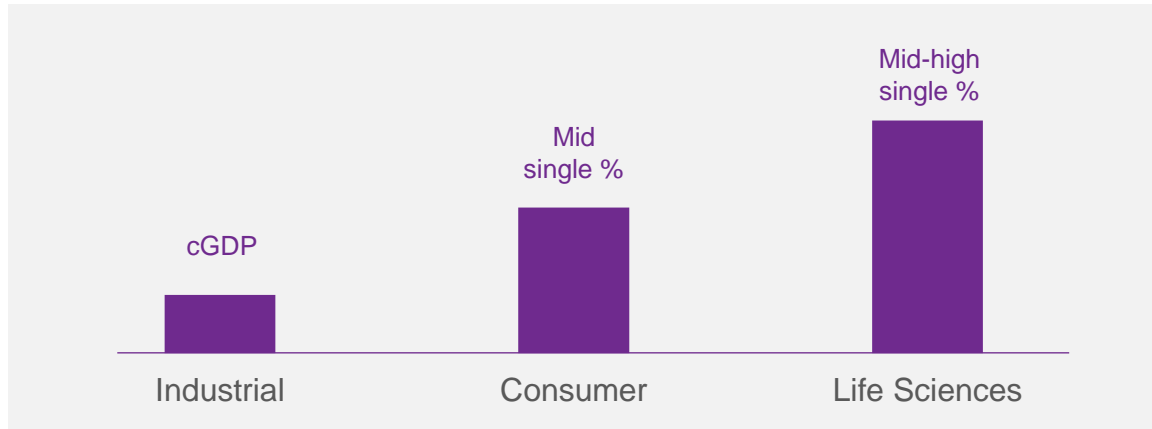
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# A strategy for growth driven by sustainability and innovation

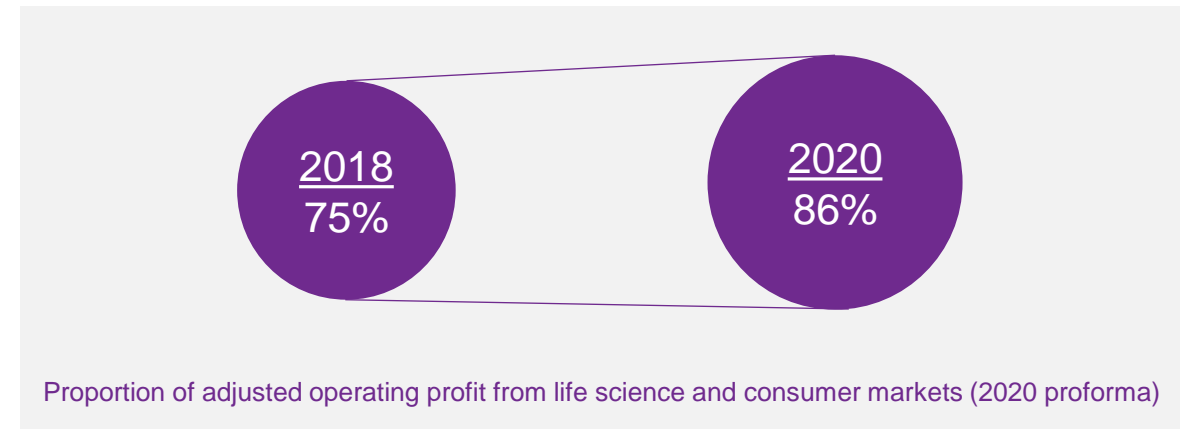


# And moving to faster growth life science and consumer markets

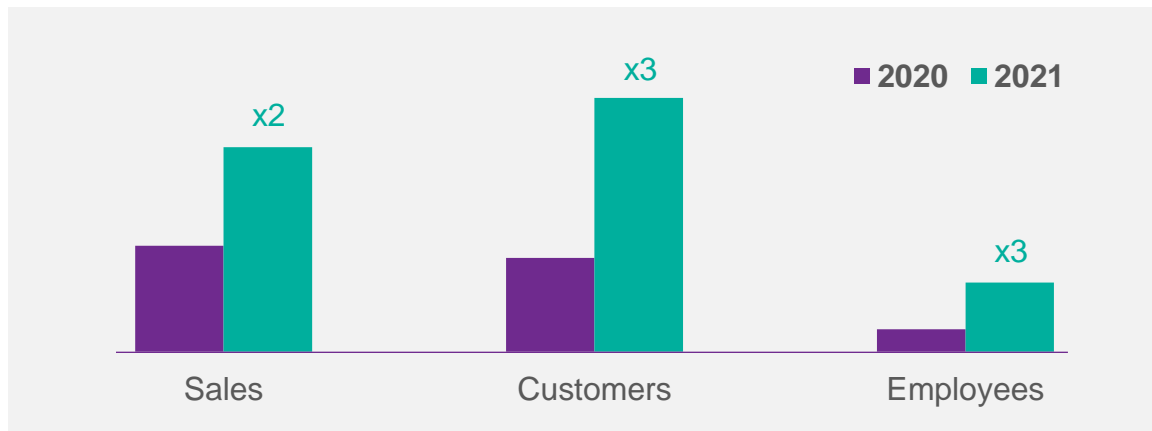
## Accessing higher organic growth



## Increasing share of profit generation



## Delivering fast growth in China



## Significant increase in innovation resource

A photograph of two female scientists in white lab coats and safety glasses working in a laboratory. They are standing next to a piece of scientific equipment.

- Drug delivery
- Pharmaceutical services
- Fragrance development
- Formulation expertise
- China, US, Middle East, Africa

"China growth" and "share of profit generation" charts show data for life science and consumer markets.



# Expanding Life Sciences by accelerating move to patient health



Moving from consumer health to patient health

Consumer health

Standard excipients

Speciality excipients

Vaccine adjuvants

Lipid delivery

Enhancing active performance

## Key trends

Growing, aging population



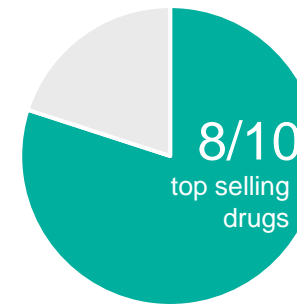
Higher health care spending

Drug safety and integrity



Stricter regulation

Biologic drug pipeline



Formulation challenges

COVID-19 opportunities



Shorter R&D cycles

# Expanding Life Sciences by accelerating innovation



## Speciality excipients



- c£2bn market opportunity
- 9% sales growth
- First multi-site excipient supplier to achieve global accreditation

## Vaccine adjuvants



- c£0.5bn market opportunity
- Over 30% sales growth
- New adjuvant technologies
- Powerful Croda integration

## Lipid delivery



- Over 50% proforma\* sales growth
- Integration on track
- 'Incubator' for high-value solutions
- Rich IP, exciting pipeline

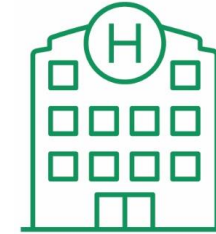
## Health Care innovation



- New US laboratory
- Increasing customer intimacy
- Accelerating new product and process innovation

Sales growth in constant currency. \*Avanti full year % increase includes period prior to Croda ownership.

# Expanding Life Sciences by accelerating organic investment



**Drug discovery  
and research**

**Phase I to IV  
clinical trials**

**Regulatory review  
and approval**

**Commercialisation  
and scale up**



**Speciality excipients**  
Croda capability

£30m investment doubling US capacity,  
expanding in UK and Japan



**Vaccine adjuvants**  
Biosector (plus Avanti)

Investing £10m on capacity  
expansion in Denmark



**Lipid delivery**  
Avanti

Reprioritised £10m in 2020.  
£40m capex in 2021 for Avanti  
and UK scale-up

# Expanding Life Sciences to satisfy many near-term opportunities



## Pfizer-BioNTech vaccine



- Critical delivery system components
- Lipid technology; protects and transports mRNA
- Minimum \$125m revenue in 2021\*

## COVID-19 treatments



- Working on >60 COVID-19 projects
- Vaccine and therapeutic treatments
- Projects across all three patient health businesses

## Gene therapy



- mRNA – a pivotal new drug class
- Multiple new treatments identified – eg oncology, infectious diseases
- New and intelligent delivery systems required

## Asia expansion



- New product registrations driving China growth
- Japan, Korea and India key markets
- Strengthened regulatory support to accelerate approvals

\*Based on contractual commitments received to date.

# Strengthening Consumer Care



Key consumer trends	Beauty Actives	Beauty Effects	Beauty Formulation	Fragrances	Home Care
Environmental and ethical standards	✓	✓	✓	✓	✓
'Purpose brands' – environmental / social impact	✓	✓	✓	✓	✓
'Clean beauty' – only necessary ingredients	✓	✓	✓	✓	
Vegan-friendly ingredients; £20bn market by 2025	✓	✓	✓		
Ingredient integrity: origin, purity and certification	✓	✓	✓	✓	✓

**Five growth businesses all driven by sustainability and innovation**



# Strengthening Consumer Care through Iberchem



## Strategic priorities

- Leverage combined strength
- Create a 'one-stop-shop'
- Capture cross-sell synergies



## Leveraging combined strength

Region	Croda		Iberchem
Europe & the Americas	74%	➔	25%
Asia, Middle East & Africa	26%	➔	75%



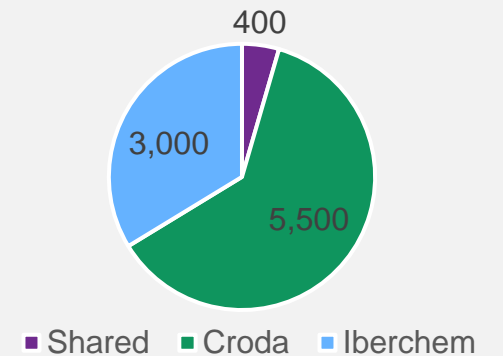
## Creating a 'one-stop-shop'

- Combining on-trend fragrances and Croda's critical ingredients
- Stable formulations
- Agile and responsive

## Capturing cross-sell synergies

- Regional, 'white label' and independent brands
- Top 10 countries identified
- c€50m pa by 2025

## Customers



# Strengthening Consumer Care through Home Care



## Key trends



Fabric care



Sensory technologies



Sustainable cleaning



Biotechnology

## Near-term opportunities

- Hygiene; increased focus to continue post COVID-19
- Fabric care and sensory for consumer benefits and effects
- Sustainable ingredients; bio-based ECO surfactants
- Offer 'full' formulations including fragrances

## Unilever 'Brilliance' Award

- Protein-based fabric technology to extend garment life
- Recognised by Unilever Clean Future programme to eliminate fossil-based ingredients
- Superior performance and 'care' benefits

# Strengthening Consumer Care through Personal Care innovation...



## Silverfree™ by Sederma



- Novel lipopeptide
- Fights hair greying and restores original hair pigmentation
- Proven in-vitro and by four independent clinical studies

## Actives expansion



- €25m Alban Muller acquisition
- Actives / botanicals specialist
- 100% natural
- Adds to Sederma and Crodarom

## Feminage™ by Sederma



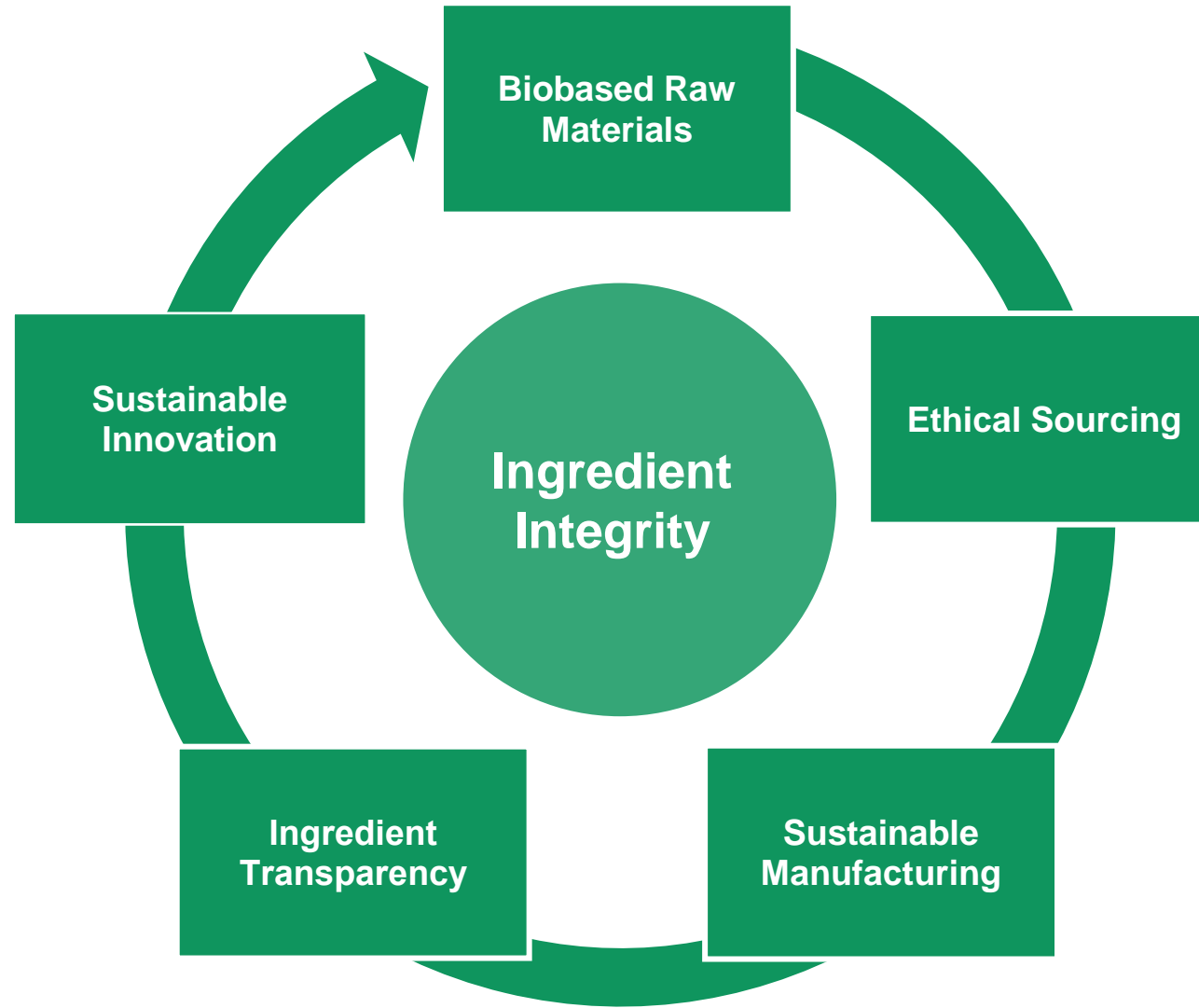
- Ethically sourced active ingredient
- Plant extract to combat loss of skin elasticity and firmness
- *“It’s right in line with the wellness and pro-age movements reshaping personal care”*

## Asia expansion



- Introducing successful French botanical ingredients to Asia
- Establishing new China site
- Botanical extracts based on traditional Chinese medicine

...to meet our customers' sustainability requirements



# ...to meet our customers' sustainability requirements



L'ORÉAL



**Biobased Raw Materials**

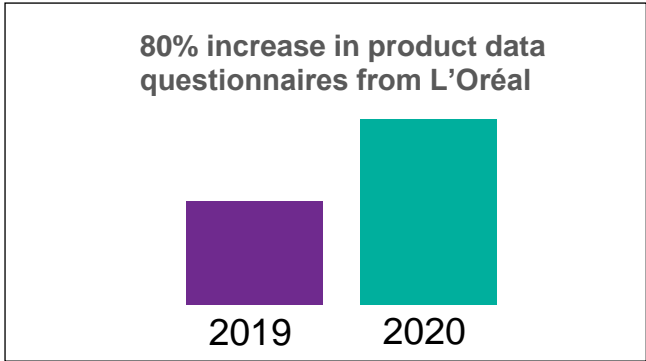
**95%**  
By 2030, 95% of our ingredients in formula will be bio-based, derived from abundant minerals or from circular processes.

**-25%**  
By 2030, we will innovate to enable our consumers to reduce the CO<sub>2</sub> emissions resulting from the use of our products by 25% compared to 2016, on average and per finished product.

**Sustainable Innovation**

**100%**  
By 2030, 100% of the biobased ingredients for formulas and packaging materials will be traceable and will come from sustainable sources. None of them will be linked to deforestation.

**Ethical Sourcing**



**Ingredient Transparency**

**-50%**  
By 2030, our strategic suppliers will reduce their direct emissions (scopes 1 and 2), by 50% in absolute terms, compared to 2016.

**Sustainable Manufacturing**



# Built on a strong sustainability strategy



2020 highlights
<ul style="list-style-type: none"><li>• Intermediate 2021-2025 milestones published</li><li>• KPIs embedded in remuneration</li><li>• President Sustainability in post</li><li>• Non-financial metrics alongside financial KPIs</li><li>• 10 decarbonisation roadmaps in place</li><li>• Croda: enabling customers to deliver their own commitments</li></ul>

2020 results	
<b>25%</b> Climate Improvement in energy mix since 2015	<b>16.5</b> Land Extra hectares of land saved thousand
<b>67%</b> Climate Bio-based raw materials	<b>50<sub>m</sub></b> People Equivalent doses of our components in Pfizer vaccine

# Summary

## Delivery

- Delivering for all stakeholders in response to COVID-19
- Increasing exposure to life science and consumer markets
- Accelerating strategic delivery – two key acquisitions
- Outstanding performance in Life Sciences
- Creating market-leading Consumer Care platform

## Outlook

- Elements of Consumer Care and Performance Technologies more difficult to predict near term
- Encouraging 2020 exit rates
- Recovery, full year of acquisitions and Pfizer-BioNTech COVID contract will benefit
- Well positioned for profitable growth; expect to make good progress

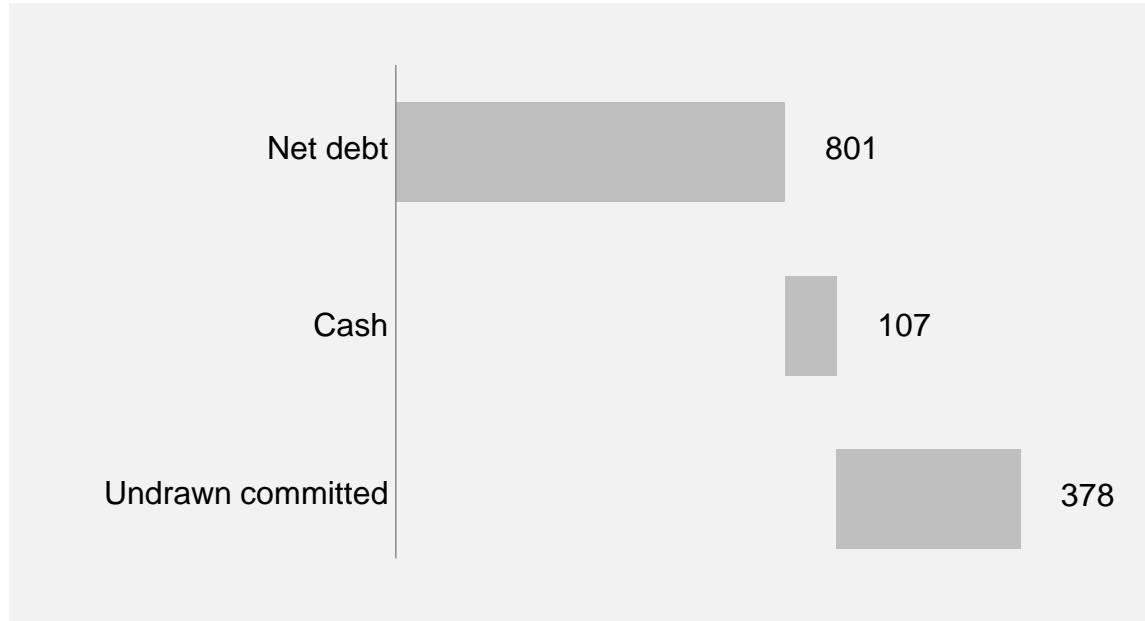
# Additional information

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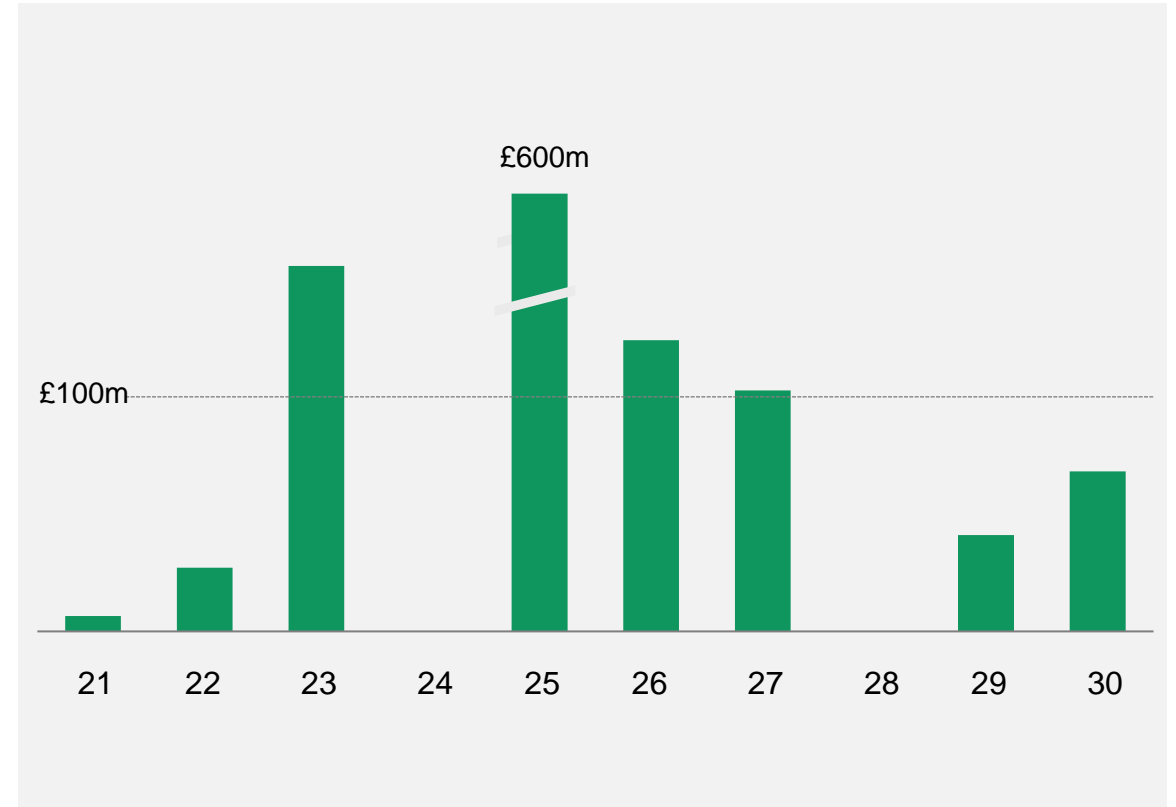
# Significant headroom and long maturities

Significant headroom<sup>†</sup>, £m ....



**Total committed funding: £1,244m**

...with long maturities\*



<sup>†</sup>At 31 December 2020. \*Excluding leases.

# Reduced IAS19 deficit on retirement benefits

£m	31 Dec 2020	31 Dec 2019
Market value of assets	1,536.8	1,390.8
Value of liabilities	(1,569.1)	(1,465.8)
Deficit pre tax	(32.3)	(75.0)
Deferred tax	7.0	14.9
Deficit post tax	(25.3)	(60.1)

# Additional financial information

## Currency translation

- Limited adverse profit impact in 2020; primarily “local” currencies versus GBP
- 2020 average rates:
  - \$1.285 (2019: \$1.278)
  - €1.125 (2019: €1.141)
- Average annual impact:
  - £0.8m per \$cent pa
  - £0.6m per €cent pa
- US\$ and € represent 65% of currency translation exposure

CRODA