

# CRODA INTERNATIONAL PLC



(as at May 31, 2020)

## Business Description

Croda International Plc engages in the manufacture and sale of specialty chemicals. It operates through the following business segments: Personal Care, Life Sciences, Performance Technologies, and Industrial Chemicals. The Personal Care segment focuses on ingredients for skin, hair, sun protection, and colour cosmetic products. The Life Sciences segment produces chemicals for healthcare, crop protection, and seed enhancement businesses. The Performance Technologies segment includes chemical products for home care and water treatment. The Industrial Chemicals segment is a small and diverse sector based on selling co-streams, which develops novel niche applications and undertakes toll processing. Croda was founded in 1925 by an entrepreneur and a chemist who operated the first manufacturing site north of England; today, the company is comprised of 4,200+ employees with operations spanning 36 different countries.

## Industry Outlook and Investment Thesis:

- **Beneficiaries of Secular Growth Trends:** According to a report by Global Harvest Inactivate, agricultural productivity must increase by 1.75% annually to meet the demands of nearly 10 billion people in 2050. This poses a strong fundamental backdrop for Croda's Crop Care businesses. In addition, Credit Suisse's Global Wealth Report projects global wealth to rise by 27% over the next five years, indicating robust demand growth in Croda's cosmetics products.
- **Capital Discipline and Strong Balance Sheet:** Croda has a strong track record of returning cash to shareholders. They have issued progressive dividends for 15+ years, targeting an average dividend payout ratio of only 40-50% of per-share earnings. Moreover, excess cash is periodically returned to shareholders in the form of a special dividend if the firm's leverage ratio drifts below a range of 1-1.5x.
- **Focused Growth via Acquisitions:** Part of the value-creation strategy for Croda is to acquire attractive businesses and quickly increase operating performance. One example of this is the acquisition of Incotec, a leading seed enhancement company; Croda acquired the seeds company in 2015, and by working under the leadership of Croda, Incotec's profits doubled in only 3 years. Croda targets companies in premium niche markets where few competitors exist.
- **An Established, Powerful Organic R&D Model:** Croda continues to move its research facilities closer to local customers, resulting in shorter lead times and enhanced customer satisfaction. They operate 34 laboratories across 17 countries, have a highly global research & development (R&D) network, and possess a strong innovation pipeline.
- **Sophisticated Sales Force:** Croda's sales team works directly with clients to develop new and innovative products. Sales are direct-to-consumer, allowing Croda to retain any margins that would otherwise be lost if products were first sold to a distributor.

## Barriers to Entry:

- Croda's business model is difficult to replicate given its longstanding customer relationships. Croda sells thousands of ingredients to thousands of clients; these relationships have been developed over Croda's 90+ years in existence.
- The speciality chemicals market is unattractive for new entrants, as significant expenditures in R&D are required to become an established player.

## Competitors:

- AkzoNobel N.V., BASF SE, Clariant AG, Arkema S.A., Evonik Industries AG

## Officers and Directors

- **Anita Frew**, Chairman of the Board; **Steve Foots**, Group Chief Executive Officer; **Jez Maiden**, Group Finance Director; **Tom Brophy**, Group General Counsel

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## Financial Summary:

## Income Statement (GBP millions, years ended December 31st)

	2013	2014	2015	2016	2017	2018
<b>Total Revenue</b>	1077	1046.6	1081.7	1243.6	1373.1	1386.9
Operating Income	264.6	248.4	264.2	298.2	332.2	342.5
EBITDA	297.2	279.4	302.3	344.3	381.8	392.6
Free Cash Flow	147.9	114	117.5	155.5	98.5	155.4
Dividends Paid to Equity Investors	-83.6	-88.1	-90.9	-230.2	-100	-110.5

## Balance Sheet

Net Debt	202.2	180.2	259.3	364.1	381.5	425.5
Total Equity	419.4	489	607.3	608.8	829.9	998
Net Debt: Total Equity	48%	37%	43%	60%	46%	43%

## Cash Flow Statement

Cash Flow from Operations	191.3	174.6	207.6	263.8	262.5	262
Cash Flow from Investing	-85.7	-67	-196.5	-107.3	-189.5	-185.1
Cash Flow from Financing	-130.8	-85.3	-3.5	-162.6	-72.6	-95.4

## Key Ratios

Gross Profit Margin	33.70%	32.80%	34.90%	35.80%	37.70%	37.70%
Operating Margin	24.60%	23.70%	24.40%	24.00%	24.20%	24.70%
Interest Coverage	20.5x	20.2x	29.6x	32.5x	30.5x	32.4x
Return on Invested Capital	29.20%	25.50%	19.70%	21.00%	19.20%	18.20%

## Business Mix

## % of Total Revenue

Personal Care	36.50%	35.30%	34.90%	33.80%	34.00%	35.20%
Life Science	18.60%	19.50%	20.70%	23.50%	23.50%	23.40%
Performance Technologies	33.00%	33.90%	32.80%	32.40%	33.30%	32.90%
Industrial Chemicals	11.90%	11.30%	11.60%	10.30%	9.20%	8.50%

## % of Operating Income

Personal Care	50.20%	47.20%	47.10%	48.00%	46.80%	46.80%
Life Science	22.10%	26.00%	28.40%	27.50%	29.20%	28.00%
Performance Technologies	23.70%	25.70%	21.50%	22.20%	22.70%	24.90%
Industrial Chemicals	4.00%	1.00%	3.00%	2.30%	1.30%	0.40%

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