S&P Global
Market Intelligence

Croda International Plc LSE:CRDA

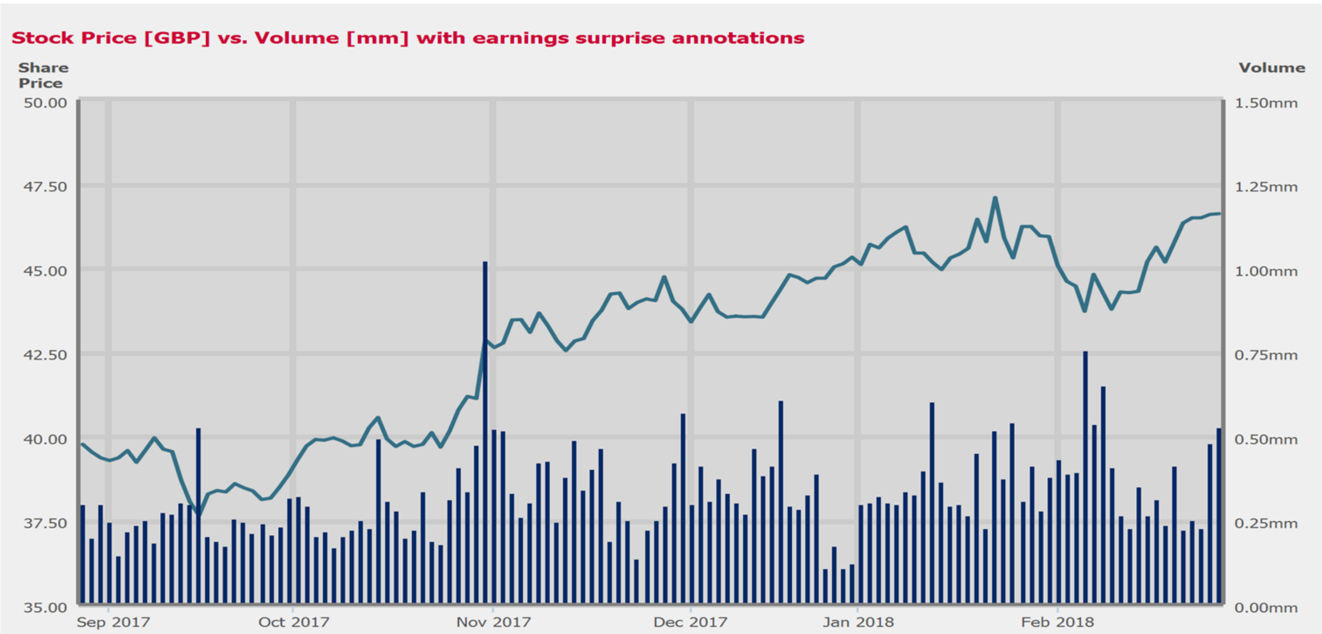
FY 2017 Earnings Call Transcripts

Tuesday, February 27, 2018 9:00 AM GMT

S&P Global Market Intelligence Estimates

	-FY 2017-			-FY 2018-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	1.77	1.82	▲2.82	1.90
Revenue (mm)	1361.08	1373.10	▲0.88	1402.66

Currency: GBP
Consensus as of Feb-16-2018 12:30 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FY 2017	1.77	1.82	▲2.82 %

COPYRIGHT © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved

Table of Contents

COPYRIGHT © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved

Call Participants

EXECUTIVES

Jeremy K. Maiden
Group Finance Director & Director

Stephen Edward Foots
Group Chief Executive

ANALYSTS

Adam Robert Collins
Liberum Capital Limited, Research Division

Andrew Gregory Stott
UBS Investment Bank, Research Division

Chetan Udeshi
JP Morgan Chase & Co, Research Division

Gunther Zechmann
Sanford C. Bernstein & Co., LLC., Research Division

Paul Richard Walsh
Morgan Stanley, Research Division

Stephanie Bothwell
BofA Merrill Lynch, Research Division

Thomas P Wrigglesworth
Citigroup Inc, Research Division

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Presentation

Stephen Edward Foots
Group Chief Executive

Okay, morning, everybody. Welcome to another webcast from Croda International for the 2017 full year results. As I look around the room, it reminds me of the boardroom of Sutherland Football Club I was in recently, and the only difference is there's a few more trophies in here than in the boardroom over there. And judging from what I can see on the pitch, it's going to be a while since -- till we get another trophy as well. Anyway, let's get on with it. Some Colchester fans in the room as well, so you better be quiet.

Yes, as usual, it's a little bit from me on the highlights for 2017, and then Jez, more on the detail of the numbers and then back to me on strategy. Okay, so let's get into it then. A year of very good progress for Croda, and a strong quarter four and then a year of significant progress, we would say. Record profits, core sector is up 11% PBT, and strong sales growth of 10.4%, strongest underlying growth since 2012 and the innovation machine, that is Croda, that's what we stand for, continues to grow, fifth successive year of NPP growth, driven largely in '17 by Personal Care and Life Sciences and the consumer business is just -- strong NPP growth there. And margins and returns are stable, and in particular, the ROIC at 19.2% is particularly impressive when you -- given the big outlay that we've had on our Atlas Point facility, 19.2% broadly flat from last year, but underlying ROIC's moving ahead.

Some really, really interesting disruptive technologies, we -- you'll hear the word disruption a lot more from Croda, some of these technologies potentially are very disruptive for our industry for the next 3 to 5 years, and we're acquiring them at quite a rate at the moment, that will continue. You'll hear more about that from later in the pack, but more at the Capital Markets Day. And good returns for our shareholders, dividend up again for the 26th year.

We finished the year in a stronger position than when we started the year, and that's always a good sign in Croda. Just getting behind the numbers a bit, consistent top and bottom line growth coming through. We're really pleased about that. We focused on constant currency, that's the most important thing in our life and through our management teams. Constant currency in the core business up 5.6%. And the quality and the business continues to improve as well, return on sales up 20 basis points. So margins nudging up. And an excellent EPS growth of 14.9%, up to 179p, and a particularly strong outperformance in the second half of the year. So we're a strong business and we're getting stronger.

Probably the highlight in the pack, and you get a lot of information from us now is if there's one line that I would like to be left with is the broad-based nature of our growth, it's solid growth across the world, across the sectors. They're all growing broadly mid-single-digit, Personal Care, Life Sciences, Performance Technologies, 3 strong legs of growth now. It's not just about Personal Care. Personal Care very important to the group, but the other 2 businesses are equally as important.

Now we're investing heavily around the world whether it's R&D, manufacturing, sales and marketing. Life Sciences and Performance Technologies, don't forget about them, some good growth, very strong structural growth coming through. And something that we don't show you very often, but we look at every month is our customer classes. So our top 10 customers represent about 16% of our sales, growing at 4.7%, the next 10 are growing at 4.3%, and the rest, which is a big number, it's about 26,000, growing about 4.6%. So consistent growth right across our customer categories around the world.

If there has been a change over the last 2 or 3 years, it's been -- we've always seen good growth with the rest section, the light blue, we've been negative with the top 10 and top 20, and it's the big customers that are starting to grow again for Croda, which is important, important message to get across. We're starting to win again with the multinationals. I think the other point there, not all of those multinationals are Personal Care. In the top 10 or top 20, there's quite an equal spread between the 3 businesses. Of course, there are a number of multinationals but -- in Personal Care, but there's quite a few Crop and Health Care, and industrial customers in there, too.

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

And all major regions are growing as well. So we've been very pleased with the Europe and Asia performance, strong and stable we would say. But the outperformance has come from North America, across all categories. That's Personal Care -- North America are up 8%. Very good progress.

So just getting into the sectors. Personal Care has been the pick of the sectors in many ways from where it was 18 months ago, strong sales growth. If you remind yourself going back, some of the headwinds in this business has been geographically, it was North America and Latin America; across the sectors or the subsectors, it was the formulation business and the multinationals, all of those were negative and have been negative for a year or 2. They've now turned positive. And all of them, they are in the green and we're seeing sequential improvement in most of those through the year. And that's accelerating the growth, so all of our regions and all of our subsectors are in a very good position now, which is important for 2018 and beyond. And a big -- quite a lot of self-help there from the business. Sandra and her team have reorganized into these 3 sub business units providing more momentum, more focus, and all 3 of those businesses are in a stronger position at the end of the year than they were at the start.

Multinationals recovered as well, very strong second half and overall for the year, the MNC is a positive. The first time in a few years, we could say that for our multinationals. And this general flight to premium is really accelerating. What we mean by that? Most of the invention in the industry is going at the top of Personal Care. And you look at some of our customers like Estée Lauder, anybody that's a big innovator in this area is growing very quickly because virtually all of the growth is coming at the top end and that's where Croda has positioned itself from our innovation platforms for several years.

The slight knock in margin is all down to mix. We've been really pleased with the MNC growth and the formulation growth in Croda, arguably the outstanding performance of the subsectors in the pack are at slightly lower margins than the rest. So it's diluted for 70 basis points, but if you look at each of the subsection -- sectors in margin term, they're very strong, strong and stable. So we're very happy that the base business is starting to come back in Personal Care. And I would leave you with this that Personal Care is probably in the best position it's been in for 5 years in Croda, really strong position, very pleased with the performance. We expect that to continue.

Life Sciences has been good too but different and predominantly, it's innovation in Health Care and Crop Care and it's integration of Incotec as well. 4.6% sales growth, profit of 14%, and 200-basis point margin improvement. So a lot of that's coming from the NPP growth, up 10%, 32% of sales, good growth in Health Care, even better growth in crop protection. Crop protection becoming a world-class business for Croda, no doubt about it. We're being very pleased with the performance. And its outperformed now, I think, the fourth year in a row. And I think in Incotec, a point on Incotec. We've restructured -- we feel like the restructuring is complete. We've closed a number of facilities, more recently we closed the Japan facility in the middle of the year and now we're investing for growth, which is classic Croda. So we're investing in China, America, Brazil, and Europe and this is a good business for Croda, and it got all the hallmarks of a classic innovation-led business. And we're ahead of our plans. By the end of this year, we'll have doubled the return on sales in that business over 2.5 years, very good business for Croda. And we're being very pleased with the Health Care high-purity growth as well.

I think a point on the API contract. We've decided to exit that. I think we've talked to you in recent times about the pricing pressure in that business. That's been a real growth story, an impressive story for Croda over 4 years, developed -- we generated GBP 55 million worth of sales over 4 years. But as more competition is coming in, there's more pricing pressure in the North American market and whilst we do get this profit share in the contract, you can -- that can turn into a loss share as well. And we didn't want that, neither did Par, our key relationship there. So we agreed to exit that contract. So that's a knock in turn over terms of about GBP 11 million worth of sales. But the rest of the business behind that is in good shape and APIs generally for the group -- for Life Sciences is about 3%. So it's a very modest -- relatively modest part of the portfolio. But Life Sciences generally in very good -- a very good place. Incotec ready for growth, and Health and Crop in good places, too.

And last but certainly not least, is Performance Technologies. We are transitioning to more focus innovation, becoming a really consistent performer in Croda and it's a strong third leg, not a weak third leg. Second year of double-digit profit growth, 10.7% profit on good sales growth and 120% -- 120 basis

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

points improvement in the second half in margin, too. Jez can talk a bit more about the volume changes in that business, quite interesting though the profit growth is impressive. And it's this focus of value over volume, which is what Croda stands for. So the broad-based growth is around us, it's fast-growth technologies, it's -- we have tried to spend more time in smart materials and energy technologies. There are some really quite interesting growth opportunities coming, whether it's in light weighting or in the electrification of cars, or new general lubricant opportunities too. There are many opportunities. And I think we're being particularly pleased with the geography of the growth, a lot of this was a European business many years ago. And we've invested in R&D and factories around the world, and the strongest growth here is in Asia and North America, which is a testimony to the fact that we've got small market share positions there. So we expect that growth to continue. So really good performance for Performance Technologies.

So we're firing on all cylinders with the 3 businesses, we're in a good position with them all. And they're all in a stronger position at the end of the year than they were at the start of the year. So on that note, let me hand over to Jez.

Jeremy K. Maiden
Group Finance Director & Director

Thanks, Steve, and morning, everybody. So let's have a look, first of all at the key numbers in the income statement. Sales were GBP 1.37 billion, up just over 10% in reported terms. Operating profit up just over 11% at GBP 332 million, small increase in the interest charge that reflects the higher debt level that we carried into 2017 having done the special return to shareholders in the middle of '16. And the profit before tax on the adjusted basis that we report on, GBP 320.3 million, an increase of 11%. Now the IFRS profit measure is slightly stronger, key reason behind that is that we have a GBP 7.7 million exceptional tax credit and that arises from the impact of the recent U.S. tax legislation on our deferred tax liability. So we revalue that and gave us a GBP 7.7 million credit. I'll talk about the ongoing impact of U.S. tax changes a little later in the presentation. So overall adjusted EPS, 179p, as Steve said, up nearly 15%. So a very strong performance and on the back of that we've proposed a full year dividend of 81p, which is an increase of 9.5%. A bit more in the final, because the interim was up only about 6.5%. So the final dividend up double-digit.

As Steve said, the positive thing about the year has been the improving sales momentum that we've seen and you can see that captured in the quarterly constant currency sales growth graph for the core business of the 3 core sectors. We saw a steady return to organic growth during the first half year with some impact on second quarter from timing of Easter, and then we saw that growth accelerate during the second half year. This was driven by progressive improvement in the consumer businesses of Personal Care and Life Science, and the key for us is that, that was achieved at maintained strong margin. So there was no margin dilution around that. At the same time, we rebalanced the Performance Technology portfolio, the second half year saw lower growth, which is what we indicated we expected to happen at the half year and this was because we were focusing on value rather than volume growth. We've seen a lot of volume growth in the first half, second half, this became much more driven by value, and as Steve said, to the benefit of margin. And the encouraging thing overall is that we do feel that we have 3 strong legs of growth behind these numbers, it's not just based on a single sector's performance.

So here we look at the bridge of sales growth in 2017, beginning with GBP 1,244 million, the reported sales for 2016. Industrial Chemicals continues to decline in terms of its sales as we continue to refine that business, particularly lose some of the co-stream sales and divert them to other uses or change the chemistry around them and produce less of those materials. The core business added 5.6% in constant currency to growth and the impact of our technology-based M&A was basically 0 in terms of sales. There's very little sales associated right now with those technology acquisitions, they're all for the future. So overall for the group, constant currency sales growth of 4.6%, add to that the currency translation benefit of 5.8% and you have 10.4% reported growth and GBP 1,373 million. Currency translation all very much first half, second half actually slightly negative as sterling strengthened.

Here just splitting out price and volume. And again, this graph is something we're very pleased with the shape of this. You can see that in the consumer businesses of Personal Care and Life Science, is very much

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

volume-driven with a relatively stable price mix component. But in Performance Technology, you're seeing the reverse of that, it's very much driven by the price mix improving and not so much volume, which is the shape we wanted to get. So in Personal Care, 5% volume growth with price and mix broadly stable, and as Steve said, reflecting the recovery in Beauty Formulations, and the continued strong performance in Beauty Actives.

In Life Science, we have 6% volume growth. This was offset by a small decline in price mix because we were much more weighted towards crop protection growth, which is a slightly lower average price. On Performance Technologies, volume growth of 1%. So very much [are about] improved product mix, technology, value over volume, together with the 1 sector where we did see meaningful raw material price rises last year, which we fully recovered by the early part of Q3. And overall for the group, a nice balance of 4.6% constant currency sales, include 3% of volume growth. So good recovery, good growth in volume demonstrated in those numbers.

If we look at the operating profit generation across the sectors, then the group operating profit is up GBP 34 million in reported currency and 6.9% in constant currency terms. With a return on sales, the margin improving by 20 basis points. Personal Care profit was GBP 12 million of growth, 3.3% in constant currency, Life Science, the stand out performer, GBP 15 million of additional profit contribution, 14% increase in constant currency profit driven very much by Incotec restructuring, with a return on sales on target to meet our 20% target for the end of 2018 in that particular business unit. Growth in crop and also the high end of health delivery systems and the return on sales in Life Science is now back above 30%, as Steve highlighted. And then on Performance Technologies, GBP 9 million of additional profit, constant currency growth over 10% for the second year running, return on sales very much on target for our 20% medium-term goal.

So looking at the overall impact of that on EPS, splitting that out into the bridge on this slide, 2016 EPS 155.8p per share. Then sales growth, as I said, adding 4.6% to EPS, better mix and margin improvement driving the 2.3% improvement there and then the slight negative from the higher interest bill. FX added 4.6% to the constant currency growth of 6.5%, and then the tax rate has added another 3.8% there. And that's because we've had a lower tax rate, 26.8% in the year compared with 28% where we've been previously, driven by lower U.K. tax and the mix of where the profit comes from now in overseas terms. No impact in that number from the U.S. tax changes, that's all for '18. Giving us overall very healthy growth of 8 -- of 14.9% to 179p EPS. I've highlighted at the bottom of the slide, 3 areas that we expect to see a continued impact in 2018. In interest, first of all, capitalized interest, we've been capitalizing interest associated with the biosurfactant plant as we're required to do under accounting standards, and that capitalization will cease at the end of the first quarter when that plant is due to come on stream. Therefore, the interest that we're paying goes back to the P&L, now that's a delta of about GBP 3 million of additional interest to the P&L in 2018.

On FX, obviously, that's currency translation. It'll be what it'll be. It's mechanical. At the moment, clearly sterling is stronger than it was at this time last year. We've put you a little slide on the very last page of the pack as an aid that might sort of guide you in terms of the calculation. But if rates continue at the current level, we'll be around about GBP 11 million to GBP 12 million of currency translation headwind compared with the 2017 rates, if we stay at where we are today. And then on tax rate, this is where we get the benefit to EPS of the impact of the U.S. tax changes at the end of last year. We anticipate U.S. tax reduction will reduce the group's effective tax rate by 2.5 percentage points. So it'll bring us down from 26.8% to low 24% level. So meaningful accretion to EPS expected from the U.S. tax changes.

Finally, looking at the balance sheet really and the cash flows around there. First of all, starting with the net CapEx, we reached peak CapEx in 2017 spending GBP 157 million on CapEx. The biosurfactant plant, you can see, is the lion's share of that, everything installed by the end of 2017 with commissioning at the moment. So very little CapEx anticipated in 2018 from that plant and you can see the rest of the capital portfolio is very much in line with where we expect to be, around about 1.3 to 1.5x depreciation. So we're looking at GBP 65 million perhaps GBP 75 million of CapEx during 2018. As a result, we expect that to reverse the free cash flow decline that we saw in '17, clearly driven by the CapEx and see that free cash flow step up again in 2018.

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

In terms of net debt, despite the lower cash flow, we saw net debt broadly stable and leverage decline slightly. So we're at 1x, which is the lower end of our target gearing range. And finally, a word on pensions. Showing you here the post-tax IAS19 deficit, that's come down significantly from GBP 113 million to GBP 21 million. Of course, it's the accounting basis and the cash payments to pension schemes is driven by what's going on in the actuarial reviews for the individual schemes. The U.K. scheme is the key scheme there. The triennial evaluation is September [2017], it's still in draft, but it's showing a surplus on a technical provision basis. And therefore, we would not anticipate any cash deficit payments for the next 3 years on the U.K. scheme.

I'll now hand you back to Steve to cover our strategy as it impacts 2018.

Stephen Edward Foots
Group Chief Executive

Thanks, Jez, or is it Hugh Grant? Or possibly Brian Connolly? We haven't really worked it out yet in Croda. Anyway, back to -- we're not sure. Great, I mean, what Jez has described in detail is the broad nature of the growth. And I think we've been privately and the board very happy with the investments that we're putting into Croda over the last few years. Its started to get growth right around the world, across customers, across all sectors as well. Our job now is to try and stretch that growth and we've identified 6 growth buckets for Croda for the next 3 to 5 years as part of our strategic planning, some of them you've -- are well known to you, some of them are quite new to you. Of course, it's about premium niches in R&D. It's all about getting into fast-growth markets with bigger and better R&D from Croda and getting closer to the customer with our R&D. But smart partnering and technology acquisitions are getting Croda to think more externally about partnerships, and in many ways using this -- see that as an extension to our R&D arm, as all the technology acquisitions we're buying are great R&D, very well developed R&D with rich IP, we'll come on to that. And you're going to hear a lot more about sustainability in Croda, more and more. It's becoming central to Croda's plans. It's not just about renewable ingredients, it's about high-purity ingredients and our consumers want safer and -- safer products and products free from -- products with impurity-free chemicals in them. It's very important. So safety is becoming an essential part of the sustainability story too. And digital is relatively new. We're really keen with digital technologies. Digital, for Croda, is about connecting better to our customers. It's not really about trying to take cost out of businesses, we're not a bank. We think digital can sit in front of our sales, marketing and research arms and help us get in closer to our customers. So a lot of opportunities. Let me take you through each one in turn and just give you some color as to where we are and what we're trying to do for 2018.

Attracting strong growth in premium niches. We've been ever much that since 1925, but I think the key points on here are not so much the products, it's the bars at the top. There is a flight to premium in Personal Care, that's not going away. Virtually, all the innovation in Personal Care is at the top of Personal Care and the small- and medium-sized customers out there are targeting that as are the multinationals now. Croda is very well positioned to capture a lot of that growth, whether it's an antiwrinkle active, sun products, hair straightening, hair strengthening, color retention, we -- our job is to put the clever ingredient in the formulation that can transform the brand. That's the most important thing. Often our products are at very small inclusion levels and -- but they are crucial to the end marketing strategy of our customers, and they create a lot of value for our customers. So we work intimately with them, and we'll continue to do that.

In Life Sciences and in Performance Technologies, it's slightly different, it's performance that drives that. And what I mean by that is they want efficacy, they want absolute proof that your product works in the formulation. So whether it's in crop, in drift reduction or yield increases or in Health Care, it's great delivery systems to improve cancer drugs or injectables. You have to have absolute product stewardship with your products, they want more and more efficacy from our ingredients. And lots of great opportunities in industrial applications now, sterile coatings is a good example. We got some clever active ingredients for pain -- for hospitals and things like that, really sterile systems. And all of these are classic Croda, small inclusion levels transforming the brand. And I could put up another 20 products there. We launch a lot of products a year, targeting the trends of the 3 industries that we're in. So very powerful and again, you'll hear a lot more at the Capital Markets Day.

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

In R&D -- and our strategy in R&D is decentralization. It's getting closer to our customers and a NPP metric is a crucial nonfinancial metric for Croda, up 75% over the last 5 years, significant improvement. There is more IP in the business today than there is 5 years ago, very important for the group. And if I look at Asia and South Africa, we're putting research and development labs very close to our customers and our noncustomers in emerging markets. And a lot of that is just working side-by-side with them in our laboratories with their problems, very powerful, pretty simple, but it's driving a lot of growth in Asia and a lot of the reason that our growth in Asia is getting consistent now is having these R&D laboratories close to our end markets growing at 6%. And in South Africa, we opened a new claims laboratory there in the Personal Care recently, sales up 15%. R&D is an essential part of our growth in emerging markets and it's driven by technology rather than by anything else.

And we're not waiting there. Those 4 R&D labs have -- most of them have been opened now in the last 6 months in Croda with Sederma the exception, that opens in the middle of the year, expansion there. And again, it's more about capturing new opportunities with existing and new customers.

And smart partnering is something that you'll hear more about for Croda as well. It's working with university startups, make the universities themselves with open innovation programs and it's all to look at R&D in a different way. More external R&D is helping us solve problems quicker for our customers and our future customers. So partnerships in color cosmetics. We can talk about, it's in the pack. But the graph shows you that our open innovation program now is really gathering pace. We've got somewhere in the region of 400 partners out there now. We started with very little in 2010-'11. And we've got maybe 200 projects and the government funding has helped that to the tune of around GBP 12 million, most of that from the British government. So we work very well with the universities. And as I said, it's giving us virtually free expertise out there. It's helping us solve problems in a quicker and more agile way. And I think we've got premium Home Care opportunities as well as skincare, but just to call out Nautilus, great opportunity for Croda. That started as an open innovation project. We've been working with them for several years. We verified the technology. What we're after was the bottom bullet point, access to unique microbial -- marine microbial library, really good. There's lot more plants under the ground than there is above the ground, and we think this is a source of new generation claims for our existing and new customers, some really good chemistry there. So we're delighted with that, and there will be a number of product launches coming from Nautilus in the next 2 or 3 years with claims that Croda has never made before. So it's great. So lots of opportunities there. And also in technology acquisitions, we're looking for more disruption, emphasis on disruption, bigger bets, bigger opportunities. And if I just look at what we bought over the last -- what we bought or built ourselves in new technologies, IRB, biotechnology, and the rest, growing at 65% compound growth. It starts from a small base, but this is starting to help the growth at the top of the company, shaping the company. And all of that is IP protected as well. So it's helping the NPP programs as well. We just want to do more of these. So that's why we're accelerating our capture of technologies. Enza is sugar chemistry, really clever chemistry, very IP-rich, and it's sustainable surfactants for the future playing on the sustainability trend.
IonPhasE is a really interesting one for electrostatic protection. Again, a lot of IP around it. And more for iPads, for phones, for cars, where there is a need for controlled electrostatic discharge, permanent antistats in a different way, really clever. It protects valuable major equipment. And that's something that we quite -- quite a weird one for Croda, but when we looked into it, looks really perfect for Martin's business in smart materials. And again, that should fast grow, Finnish company, with great R&D, and loads of patents, what we like. And we'll be doing more of this -- probably 4 or 5 of these per annum. We probably won't announce them individually. We'll announce them collectively, but we're interested in weird technologies, technologies even some of our customers aren't thinking about yet, but we're interested in great people as well. So over the last 12 months we brought on some great scientists, biochemists, agronomists, biologists, great formulators as well and that will help Croda develop in our core businesses as well. So it's quite -- this is an exciting area of growth for Croda. And our sustainability story is gathering pace. Jez talked about the biosurfactant plant, award winning as well, just on stream at the end of this quarter, 100% bio-based, 100% renewable, low carbon footprint, and this USDA bio-preferred is the independent stamp that you need that says, this is a green -- these are green surfactants. Lots of opportunities in the Home Care and Personal Care and just some of the numbers down here, 40%, and if you look at the [Intel] database, 40% of skin and hair product launches in the last 2 or 3 years contain alkoxylates, 40% of them. And if I look at the sustainability trend in Personal Care, 1 in 2 products

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

at the moment contain sustainability claims. So you start playing with big numbers and we just need to convert a small number of these across to the green chemistry, and we'll be in a very good shape. And we've got 7,000 customer product combinations already, we've -- this is a complex business for Croda. It's got some great IP anyway. So we are very well protected in that respect. And the customer interest is gathering pace all the time, big surfactant conference in January, and we have all of those and more very interested in the technology. So it's a great story, we expect good growth to come from that and it's -- Croda putting our money where our mouth is on sustainability, no doubt about it. And just a word on digital, we brought in a Chief Digital Officer, which might surprise some for a B2B company, very important for Croda. We've got 1 common SAP platform in the group, what we want to do is connect the data from that SAP platform through our sales marketing and research groups in a more clever way to give a digital experience that customers haven't had from Croda or anybody else in our industry before. We're not interested in ripping cost out and simplifying processes without digital, it's front-facing, it's connecting us better with the customers. And also we're moving into digital technologies to help our R&D. So we've seeded investment in Cutitronics, which is novel delivery systems for your skin, gives you a diagnostic data on skin quality and it allows you to help with formulation development to improve your skin, rapid formulation screening at the material innovation factory at Liverpool. It's a great way of -- a great agile way of screening thousands of formulations in a short space of time, certainly helpful to get problem-solving through our R&D quicker, and the next generation customer is virtual, it's agile and they're very data hungry. And we like that, we like that in Croda. Our job at digital is to make sure we can talk to them in a different way than we talk to them now. Virtually 60%, 70% of the innovation across all of our businesses is coming from these type of customers. So we have to position ourselves in a smarter way to capture future growth with them. So that's the thinking behind digital. And you'll hear more and more about that over the next 2 to 3 years. So I think just in concluding, we're investing in the right things. We're investing in more disruptive technologies, it's all about R&D as well taking bigger bets, digital and manufacturing capabilities are an essential part of our offerings. And in people, we want to specialize knowledge in people, we like specialists. We can commercialize the knowledge of people, that's part of our job. So in outlook, we've got good momentum, we had a good start to the year, and consistent top and bottom line growth and we expect to deliver continued progress. So let's stop there and take your questions. Gunther?

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Question and Answer

Gunther Zechmann
Sanford C. Bernstein & Co., LLC., Research Division

Can I kick off with 2 please? One is on the outlook that you have actually there. Can you just give some more color around what do you expect for the different business areas in terms of the growth? And maybe if you can put some of your expectations here on the margin side as well for the year.

Stephen Edward Foots
Group Chief Executive

Yes. I mean, the way to look at it is how we look at our plan. We started with Personal Care, the early part of last year, where we said probably 2% growth for '17. We increased that to 4% through the second half. We would increase that again this year to 5% growth. I think 5% is about right. And probably 5% probably about right for the group, mid-single digits, with Life Sciences a little bit ahead of that and Performance Technologies a little bit below that. So we screen for mid-single-digital sales growth, I think, 5.3% at the end of the year. And we started well, but -- mid-single-digit is about right, with a tad margin improvement coming through mainly from the Performance Technologies business. We're really happy with the margins in Personal Care and Life Sciences. We just want more quality turnover growth coming through. We're starting to get that. There's been a correction in margins in Personal Care, just because the base businesses is coming about. We don't expect that -- to see that again next year. So margins in the consumer business is broadly stable. And with a bit of margin increase coming through on the industrial businesses.

Gunther Zechmann
Sanford C. Bernstein & Co., LLC., Research Division

And the second one on capital allocation and cash returns to shareholders. Jez, if I can ask, what's holding you back being more generous? As in the net debt to EBITDA is 1x around it, but also the -- once the dividend increased the ordinary one, the payout ratio actually came down a little bit. So can you put some more color around your thinking when it comes to cash returns, please?

Jeremy K. Maiden
Group Finance Director & Director

Yes, we haven't changed our view around capital allocation since we introduced the policy 3 years ago. And we did the special 2 years ago. The -- yes, we're at the bottom end of the target range of 1 to 1.5x EBITDA. We'll -- we expect cash flow to be good in 2018. We've increased the dividend, yes, with one eye to what's going on in reported currency terms. Clearly, there might be a little bit more reported currency headwind in 2018 depending on what sterling does. And we want to be able to continue to improve the dividend over time. As Steve says, as we have over 26 years. So I think the ordinary dividend, we're always keen to maintain a good payout ratio and make sure we can drive that forward broadly in line with growth in earnings. And so then it leaves the opportunity to use the balance sheet and the cash generation for 1 of 2 things really, inorganic expansion through M&A or returns to shareholders. And we're very clear that if we see opportunities to grow beyond just the technology acquisitions, which are quite small in terms of outlay. Then we will -- bolt-ons, maybe something bigger if those opportunities develop in the chemical sector over the coming period. Or we'll return money to shareholders. We're very clear around that.

Stephen Edward Foots
Group Chief Executive

Adam?

Adam Robert Collins
Liberum Capital Limited, Research Division

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

It's Adam Collins from Liberum. I had a couple of questions too. First one is on Personal Care. You talked about the strong growth in Actives during the year, double-digit growth. Could you tell us what the growth rate was in the other 2 areas, formulations and effects? And would you mind to give us sort of a sense of how you see the 3 areas growing in the coming years? You talk about Personal Care overall growing up 5%. But how would those 3 areas perform? And then the second question is on the PT side. Again, you talked about strong growth in energy and smart materials, but would you mind giving us a sense of what the growth rate was in the other areas, coatings, the slip additives business, and home care, for example?

Stephen Edward Foots
Group Chief Executive

Yes. Well, let me do the first one and Jez might -- we can do it together. I mean, I get on the second one. I mean, in Personal Care, a great performance from Actives, double-digit sales growth, a low double-digit sales growth. It hasn't -- we thought it would be more of an impact in quarter four than there actually was with the plant outage. But that's great stock management by the management team, because we had stock around the world. Formulation business, broadly mid-single-digit. It's been a really good performance there. And that's a big part of Personal Care. And effects, flat, negative first half, positive second half. And if you look at -- if you look into 2018, we see broadly 5% there, a little bit more in Actives, similar in formulations and may be similar in effects as well. So around mid-single digit for formulations and effects, maybe slight formulation below 3%, 4%; effects mid-5%; and active, a little bit more. But it screens for about 5%. But all businesses are in a good shape. And I mean, let me start with the industrial one. I mean, Energy Technologies has been the great growth driver in 2017, really good business growth there, around 10%. And smart materials, low single-digit, I think, getting behind the numbers. Jez can answer.

Jeremy K. Maiden
Group Finance Director & Director

So the way we've reconstructed the -- smart materials is both coatings and the old polymer additives business. That's really what we're seeing as the core of smart materials, but clearly driving to new technologies so that we can increase the proportion of NPP and so forth there. And then in energy, technologies that's picking up the lubricant business and the oil and gas business from there, with a small third leg in selected home care and water treatment. And so that's the way we're analyzing it really now to provide more of a focus to create new technologies and drive new technologies in those areas.

Thomas P Wrigglesworth
Citigroup Inc, Research Division

Tom Wrigglesworth from Citi. A couple of questions, if I may. Firstly, on press reports that you're in conversation with Ashland, irreconcilable differences or part of a longer-term kind of courting process, maybe you could explain the attractions and what happened there in a bit more detail. And then secondly, just in terms of your guidance and the kind of framework, am I right to interpret that there is a kind of renewed confidence in investing in growth in Croda coming forth from this set of results, the success of Incotec, kind of leading you to further accelerate looking for IP? Is that the message that -- am I receiving that correctly?

Stephen Edward Foots
Group Chief Executive

Okay. Let me try and take that all in one, because it partly answers Gunther's question about share returns as well. We don't need to get into a courting process like going back to school days. But we don't talk about press speculation or rumors, we will say that for sure. It's not my style. It's not the company's style as well. I think generally, the way to look at our M&A approach has -- it hasn't changed. We've got, in many way, optionality to do what we want. Our priority focus has always been and continues to be small bolt-ons and technology-led acquisitions. We are very keen on technologies in the company. And in many ways, one great way of transforming a business is just bringing some of these technologies on it. Some of these technologies could be very big. But we'll see where we get to with that. But of course, we do look at -- it's like a pyramid effect for our M&A. We've always had 2 transformational targets in our mind.

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

They're always going to be around. Uniqema came 10 years ago, 11 years ago. And they come once every decade or 2, and we're not fixed on them, we don't need -- I think the point on M&A is we don't need to -- we don't feel like we need to do M&A. We don't feel like we have to. And we may deserve to do it. I think we deserve to do M&A, but we won't do it just for the sake of it. We keep our -- the 2 words that we use at Cowick Hall a lot are patience and discipline. And so that hasn't changed. So our M&A strategy all options are open. Priority focus in the near term is small and small technology acquisitions and bolt-on, 1 or 2 interesting bolt-on technologies as well. I think your point on growth is well made. We gain more and more confidence that the investments that we're putting into the business is starting to come through. We've got very good growth now in all 3 businesses. We expect that to continue. In many ways, the investment is good enough around the world to get continued growth. Our job is to stretch that more. And whether you hear the word disruption more and more or digital or sustainable -- sustainability, it's all about getting faster growth in the business. So yes, for sure, there's definite confidence improvement. And a reminder to everybody, the cheapest way of growing is to grow organically. It really is. But that's not going to stop us having a good look at some M&A opportunities. And Gunther's point is we still -- there is a good chance that we still could do some sort of special return or a share return of some description, cash return of some description to shareholders this year. We're keeping all of our options open. It's just we took a decision today not to do it now, because particularly on the small and medium-size bolt-ons, there's 1 or 2 interesting projects that we are in discussions with. Something may come off before the middle of the year. Something may not. So -- but it's on the bolt-ons -- bolt-on areas. But yes, we're in a good place, we've got growth. So let's keep our options open is the message.

Paul?

Paul Richard Walsh
Morgan Stanley, Research Division

It's Paul from Morgan Stanley. Just a follow-up on that one. It's clear to me, though, that you would rather invest your cash flows in your business than return cash to shareholders if you can get the right returns on that cash. That's just me sense-checking your priorities for capital allocation. And then my second question, you talked about margin gains, Steve, in the PT business this year. But I also saw, in the second half, a very strong performance in Life Sciences. Should I think that, that's an unsustainably high margin, because you aren't talking about Incotec in the 20% this year? Or is the second half the sort of run rate we should expect for that business? I know currency plays a bit of a role in this stuff, but generally, that was a step-up in margin in Life Sciences in the second half.

Stephen Edward Foots
Group Chief Executive

Yes, okay. I mean, on the first question, our priority is to do the right thing in terms of returns, in terms of shareholder value for ourselves and for you. So if we could find the right opportunity from an inorganic point of view, of course, we would look at that first. I mean, you look at Incotec, we've doubled the profitability in 2.5 years. So I think for anybody out there would say, well, if you can find more like that, go on and do it. The returns that we can get for that are great. If anything has given us a lot more confidence in the management teams in Croda, it's the same management team that was there 10 years ago. We're good at acquisitions. It doesn't matter whether they're small, medium or big. And so if there's a right opportunity, we will look closely at it. But we always get back to the view that says, " Year 1 and 2. It's not about that. You can take cost out of the businesses and it's mechanical. And you can look good after a year or 2. Can you grow the business better than the incumbent management team from year 3, 4, 5, 6?" That's the most important thing from value creation, from M&A. I could write a book about value destruction in M&A for the chemical industry. Maybe we'll do it some time. So -- and many people forget that years 3, 4 and 5 is where you make all you money. It's what we did with Uniqema, and that's where we would do it again if we chose to go down that line. But if we don't, Paul, there is not a huge numbers of targets out there for Croda. And if we don't, you could all plan your future cash generations in the group and you can get to a really pretty low gearing number. We'll return it, we will. Jez's allocation policy is very clear on that. So it's not for now, but let's see, let's see what happens on that. And your point on margins, I means, it's a bit of Personal Care and Life Science. But let's take Life Sciences first. We don't guide the margins up for the business. They tend to go up, because the natural innovation programs will drive it

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

up. So in our plans internally, they're broadly flat. Is there a chance that they may go, they might. But I don't think Incotec is going to sit at 20% returns on sales for too long. It's going to continue to climb and with very good margins in Incotec as well, so a high-margin business. It's a knowledge business. So in many ways, it depends on the mix in that business. But Health Care, Incotec, very good and Crop Care is good too as well. So we're guiding for margin stability, though there may be a chance that margins start to creep up if we're successful with the -- particularly on the Incotec growth going forward.

Paul Richard Walsh
Morgan Stanley, Research Division

[I understand this] is nothing unusual in that second half margin, which is better [indiscernible]

Stephen Edward Foots
Group Chief Executive

No, I mean, it's better from -- innovation-led NPP growth up 10%, it's good quality growth, Health Care and Crop Care.

Chetan Udeshi
JP Morgan Chase & Co, Research Division

Chetan Udeshi, JPMorgan. Just one question on the acceleration in growth you've seen in Q3 and Q4. We've seen that with other Personal Care-exposed companies as well. So would you say this is mainly the demand coming back? Or do you think there is some sort of share shifts happening, maybe your exposure to Indies, as you call them, is helping you grow faster than your competition?

Stephen Edward Foots
Group Chief Executive

I mean, the macro point is an interesting one. I mean, Croda is never driven by macros really. It's driven by micros, doing the right things, it's our innovation. I think there is a little bit of growth in macro in Personal Care. But I think when we look at the 2017 numbers for skin care growth and hair care growth for the industry, I don't think they'll be significantly different to 2016, 2.7% to 2.8%. That's not statistically different. What is different is most of the -- the pace of that growth is coming at the top. It's coming at the top of the industry. It's clever growth at the premium end, the luxury end, some people call it. That's great for Croda. So anybody in that luxury end screens well for that. I talk about Estée Lauder, most of that business is at the top. So I think there's a little bit -- it's macro, but most of it is self-help from Croda doing the right things and its constant innovation machine pointed in the right part of Personal Care. And I think the other point to make would be North America, I think from a regional point, we have seen North America come back. Some of that is macro -- a little bit of that is macro, but we've seen good growth in the other 2 businesses in North America, too. But mainly, it's Croda doing the right things and targeting the right areas. Andrew?

Andrew Gregory Stott
UBS Investment Bank, Research Division

Andrew Stott, UBS. You can't comment on press speculation, but you can comment on the mechanism for a large transaction, I guess. So my question is really the fashion of the chemical industry to look at merger of equals, some failed, some still trying to succeed. Is Croda of the mindset that a merger of equals is a plausible option? Or would you like to have operational control, and therefore, equity is really the financing option for you? That's question number one. Question number two is around Life Science. Again, Q4 was exceptionally strong, and I'm just not sure what the key drivers were bottom up for that. So I just wondering if you go through each of those individual components.

Stephen Edward Foots
Group Chief Executive

Yes, okay. Well, just the Life Science -- I mean, the first question, good question. I think everybody that knows Croda knows that when we do inorganic organizations -- they're few and far between. But when we do them, we do them, because we want management control of them, absolute management

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

control. I could never see Croda wanting to enter into any type of merger. The culture of this company is too important for them. And so we're talking hypothetically, of course. But generally, you would -- we would want to have ownership of the organization, any organization that we buy, same with Uniqema, and for the right reasons. You want -- the synergies are all about growth [that would be] reversing somebody's business into Croda's business model, that's where it would be. And Croda's business model is very powerful, and we're one of the best off balance sheet -- value in the company is the selling network. It's a great global reach. It's technical selling people who are great at doing what they're doing. So yes, absolute control. And then it would all be down to financing and can you get the value in year 3, 4, 5, 6 and 7. But back to -- we don't have to do -- we don't feel we need to do a big deal. We don't. We need to do -- we just need -- we want more technologies in the company. And in many ways, in the next 10 years, if we have another 50 technologies, 50 micro businesses in Croda, I'll be happy, because we're bringing them on at a phenomenal rate now. And if we get 4 or 5 of these a year, we'll be in a very good position, capital-light, rich IP, clever people, great returns, brilliant for ROIC and margins and great for NPP. You look at and you think -- and that's where the fertile ground is in our industry. There's loads of these coming up, and we're tuned into them. And we're looking for things that nobody else is looking for, I can tell you that. Some of them maybe surprise a Chief Executive. Do you want to do the Life Science question?

Jeremy K. Maiden
Group Finance Director & Director

So I suppose all 3 of the businesses within Life Science did particularly well in the fourth quarters. So Incotec is quite a seasonal business, and the fourth quarter is the key quarter for it, because obviously, you've got to get these seeds enhanced, coated and so forth and into the supply chain for the spring. So it's a very busy period and quite hard to call in, and it was a very successful fourth quarter. Crop protection, the above-the-ground crop treatment, the traditional Croda business, extremely strong, had a very -- it was very flat first half, and second half was a real resurgence. Clearly, long-term, the driver there is our collaboration with major ag chem companies. But nonetheless, it was particularly strong in crop in the second half and good sales consistently outperforming the market in crop. And then Health Care had a good fourth quarter. And generally stronger in high-purity delivery systems also helped, of course, by the final sales of API into North America, because clearly, we have been guiding to around GBP 8 million of sales. And as Steve said, we did about GBP 11 million on that contract. And that reflects the fact that clearly, we want to get the stock shifted, so there will be no residual cost to us going forward there. So a little bit of help from the exit of the API contract, but mostly just really strong underlying performance in the 3 businesses.

Andrew Gregory Stott
UBS Investment Bank, Research Division

And can I just follow up, sorry, on that? On the crop protection side, is that specific to the drift control, the problems Monsanto are having? Or do you think this is just a broad recovery?

Stephen Edward Foots
Group Chief Executive

I mean, broad recovery, we'd say. I mean, drift reduction is an interesting niche area, but it's one -- it's relatively small, one in several. I think what we're finding is we're not alone, but more and more of the innovation is coming to -- they want more intelligent delivery systems to get more -- an extra performance out of their pesticide or herbicide. And that's really, really important. And that's one reason why we're interested to purchase Plant Impact we announced recently. It's not a dump a truck business, as we talked about before. Or some people think Plant Impact is a building company, but it's a crop company honestly. And that's a really -- it's a clever move for Croda as well, because we think that's accretive to the technology. It's a gap in our technologies, and we think that's going to be helpful to our customers, big and small, in crop, too.

Stephanie?

Stephanie Bothwell

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

BofA Merrill Lynch, Research Division

It's Steph Bothwell from Bank of America. Just 2 questions. So firstly on Atlas Point, can you perhaps give us an update in terms of how things are tracking there, and also how we think about the contribution from that in 2018 and 2019? And the second question was on your digitization strategy. You said it wasn't about cost reduction, but should we expect any incremental cost R&D CapEx associated with that project?

Stephen Edward Foots
Group Chief Executive

Okay. Well, Atlas Point, let me start and Jez can take over the finances. In good shape, should be on stream at end of quarter 1. And the interesting thing is this customer buy-in, the customer interest is escalating quite quickly now, which is what we want. And a reminder to you all that this year is all about just getting everybody converted to the green economics. So there should be a margin -- there should be some margin improvement coming throughout the year as we move away. We take the raw material out, [our] intermediate out the supply chain. 2019 is the big year where we would get further growth, new growth, as we connect with all of our customers, big and small, to look at developing new white space with them, brand extension. So we're in discussions with them already. But that as -- like what we say with acquisitions, it takes a year for us to position it correctly, and then we see the benefits. So you'll see a margin improvement plus a sort of turnover benefit next year. On that note, Jez, want to add anything on...

Jeremy K. Maiden
Group Finance Director & Director

Yes, in terms of profit impact from simply replacing the suppliers effectively in the supply chain, which is what happens on day 1, we replaced the existing sort of roughly 20,000 tonnes of EO that we buy. Yes, small single-digit millions of pounds profit impact, maybe GBP 4 million based on running for 3 quarters of the year. But as Steve said, the real bigger benefit is then being able to grow the volume on the back of the sustainability platform, but on day 1 of this year, yes, so perhaps around GBP 4 million if we're on time for 1st of April.

Stephen Edward Foots
Group Chief Executive

Yes. And on digital, I mean, nothing really. We might bring on half a dozen, 5 or 6 real digital experts to help us. But it's trivial to the cost of things. The most important thing is we see digital as a new vehicle for us. It's a new marketing channel that will help us. We're doing a lot of good digital stuff anyway. But we wanted this digital head to put a roadmap together to get us excellent in digital over a 2-year period. And I think all the signs are, I think, we'll do that.

Jeremy K. Maiden
Group Finance Director & Director

Yes, we've done all the work on websites and so forth and SAP. So the backbone is there. It's just exploiting it.

Stephen Edward Foots
Group Chief Executive

Adam?

Adam Robert Collins
Liberum Capital Limited, Research Division

A couple of follow-ups. So on Omega-3, could you remind us what the remaining business is in Omega-3 and what the plan is for the existing plant that's been supplying power? And second question goes back to the PT growth. The biggest bid by far is the high-purity excipients business, and that seems to be in a long-term structural growth trend.

Stephen Edward Foots

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Group Chief Executive

Life Sciences you mean?

Adam Robert Collins
Liberum Capital Limited, Research Division

Life Sciences, beg your pardon, Life Sciences. Could you talk a little bit about high-purity excipients? What is driving that business?

Stephen Edward Foots
Group Chief Executive

Yes. I mean, let me take the Life Science question. I'll let Jez do the Omega-3 one. I mean, Life Sciences for Croda of the high-purity excipients, it's all about stabilizing drug actives. They're not the active ingredient in the formulations. But what we're seeing, the trend in the pharmaceutical industry is to more complex drug actives, 3-dimensional, big molecules. What that means is it's very difficult to stabilize them in formulations. And then the flight to performance that I mentioned before is all about if you can stabilize them well and get them targeted to the site that they need to be targeted to, whether it's part of your skin, part of your particular body, you'll get an increased performance. So we spend a lot of time with our customers collaborating with them about how to stabilize the actives. So it's about stability. I won't trivialize it. It's very important. So we're engaging lots of different relationships, different levels. But that's all about that. So we're in cancer drug, we're in chronic leukemia drugs, we're in eyedrop eye care materials. And we are creating a lot of value for our customers. We like that. They create value. We do as well. There's a big margin in it for Croda, and there's an even bigger margin in many ways for our customers. On the Omega-3?

Jeremy K. Maiden
Group Finance Director & Director

Yes, on the Omega-3, so obviously it's quite a different platform to the rest of the Health Care business, which as you say is around the excipients, in particular the high-purity part of the excipients delivery systems. Omega-3, really 2 components left. One is the nutritional element of Omega-3, which we're still doing on site; and then secondly, a small residual platform in high-purity APIs. So we've got a couple of European generics, a lot smaller than the North America contract. But there's also a handful of interesting clinical trial, new drugs rather than generics, which may come to the market and which we may be able to participate in. So we continue to support those and supply sort of test quantities and so forth. They could become big drugs in their own right and they might not, of course. So we very much think of API, as Steve said, about 3% of Life Science turnover in total. So a small platform, a bit of a ring fence platform, but one where we have some skills and expertise and where there could be some interesting things for the future. So we'll stay involved in that. It won't impact the Leek site, as the Leek site carry on, making the whole range of products it does for Life Sciences. So there's no issues around that. There's no exit cost or anything such as that associated with this. And then we'll see where the Omega-3 platform takes us. So we're not out of it. We'll see. But more -- probably more branded, you know, new drugs rather than focusing on generics, which isn't really, isn't really Croda.

Stephen Edward Foots
Group Chief Executive

Okay.

Chetan Udeshi
JP Morgan Chase & Co, Research Division

Maybe one question on NPP products. Can you give us some examples of how do you see the benefit of that in terms of customer lock-in that you have now versus, say, some years in the past? Or is it just that given these are patented stuff, patented Actives, customers have to come to you? Or are your competitors doing the same?

Stephen Edward Foots

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Group Chief Executive

Yes, I mean the way to look at NPP is it's patented technology. So if it's patented, we've got something that you could -- what you want with NPP is you've got something that's valuable. And this is the philosophy of Croda, your customers really need it and they want it and it creates a lot of value for them. And if you've got that relationship with them, then that's perfect. There's margins in it for both companies, big margins. And that's the spirit of NPP. So there's nobody else. If we've got an NPP product, that means nobody else, by and large, can offer anything like that. So Matrixyl is always a great example in pentapeptides for -- Boots No7, Olay Regenerist, that product drives the brand. If it wasn't in the formulation, there wouldn't be a brand. And in many ways, that's the sort of example that we use to drive our thinking not just in Personal Care, but in the other 2 businesses as well. So yes, so the spirit of what we do is we want more and more of our business secure. So if we have more intellectual property in the company year-on-year, we're a stronger business, much stronger. We have more pricing power. We have more security. We don't have to look over our shoulder every 3 months to see whether competition is going to steal your business. We're not in that market -- our job is to create markets, in many ways, not destroy them. And that's -- so that's the philosophy. It's a deep philosophy. So it's all about clever ingredients. We just want more and more clever ingredients.
Okay, great. Well, thank you very much, everybody. Off you go to your next -- your next one.

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Copyright © 2019 by S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

These materials have been prepared solely for information purposes based upon information generally available to the public and from sources believed to be reliable. No content (including index data, ratings, credit-related analyses and data, research, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P Global Market Intelligence or its affiliates (collectively, S&P Global). The Content shall not be used for any unlawful or unauthorized purposes. S&P Global and any third-party providers, (collectively S&P Global Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Global Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content. THE CONTENT IS PROVIDED ON "AS IS" BASIS. S&P GLOBAL PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Global Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages. S&P Global Market Intelligence's opinions, quotes and credit-related and other analyses are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P Global Market Intelligence may provide index data. Direct investment in an index is not possible. Exposure to an asset class represented by an index is available through investable instruments based on that index. S&P Global Market Intelligence assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P Global Market Intelligence does not act as a fiduciary or an investment advisor except where registered as such. S&P Global keeps certain activities of its divisions separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain divisions of S&P Global may have information that is not available to other S&P Global divisions. S&P Global has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P Global may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P Global reserves the right to disseminate its opinions and analyses. S&P Global's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P Global publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.
© 2019 S&P Global Market Intelligence.