

Corporate



Science and Technology for Pharma&Biotech, Nutrition and Well-Being

2014 Full-Year Results – 21 January 2015

Richard Ridinger – CEO

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Full-Year Report **14**

Lonza Segments

Lonza

Specialty Ingredients Segment

Our Markets:

Consumer Care incl.
Personal Care & Preservation
Nutrition
Hygiene

Agro Ingredients

Water Treatment

Industrial Solutions

Wood Protection

2014 ^{*1}

Sales:	CHF 2,154 mn
CORE EBITDA:	CHF 360 mn
CORE EBIT:	CHF 272 mn

Pharma&Biotech Segment

Our Markets:

Custom Manufacturing

Custom Development

Bioscience Solutions

2014 ^{*1}

Sales:	CHF 1,446 mn
CORE EBITDA:	CHF 385 mn
CORE EBIT:	CHF 245 mn

FY 2014 – Business Overview

- Lonza delivered expected results with CORE EBIT growth of 11% in CER (+9% reported) to CHF 475 mn, supported by both segments
- CORE EBITDA margin at 20.4%, exceeded original guidance given in 2012 for 2015, one year ahead of schedule
- CORE RONOA improved from 12.3% to 14.3% in 2014, reflecting the improvement of profitability and asset utilization
- Revenues grew by 3% to CHF 3.64 bn in constant exchange rates (+1.6% reported), negatively impacted by the poor weather conditions in the residential water treatment business, as well as the time-consuming, complex tech transfers and qualifications/validations and portfolio optimizations (e.g. Hopkinton shutdown)
- CORE EPS increased to CHF 6.79, an increase of 36.1%
- For third consecutive year, we demonstrate that the transformation is continuing and is making progress
- Headcount (FTE) reduction in 2014 by 1.3% to 9,809 (-126 positions)
- Based on strong cash flow and improved balance sheet, the Board of Directors is proposing an increased cash dividend of CHF 2.50 per share for 2014

FY 2014 – Operational Overview

- In our cGMP sites, 34 regulatory inspections and 169 customer audits were conducted successfully
- Successfully executed process transfers from Hopkinton, MA (USA) to Visp (CH)
- New plant for niacinamide in Nansha (CN) started up as planned in H2; Guangzhou (CN) plant ceased operation
- Second large-scale ADC facility in Visp started up as scheduled
- Capacity expansion for Agro Ingredients in Visp (especially for bio-pesticide development and manufacturing) progressing as planned
- Rigorous attention to safety matters resulted in 2014 being a record year, with all key targets exceeded

FY 2014 – Additional Financial Highlights

- Revenues increased by 3% to CHF 3.64 bn in constant exchange rates (+1.6% in reported currency)
- Operational free cash flow remained high with CHF 476 mn
- Profit for the period increased by 172% to CHF 237 mn
- Financing costs reduced substantially due to lower interest rates
- Net debt reduction fully on track before the TL JV write-off of CHF 85.4 mn and negative currency impact of CHF 105 mn, ending at CHF 2.0 bn, which resulted in a net debt/EBITDA ratio of 2.7x
- Capital expenditure at CHF 180 mn (CHF 210 mn in 2013)

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Key Financial Figures

CHF mn	FY 2014	FY 2013	Change YoY
Sales	3,640	3,584	1.6%
EBITDA	737	647	13.9%
<i>EBITDA Margin</i>	20.2%	18.1%	
CORE EBITDA	743	711	4.5%
<i>CORE EBITDA Margin</i>	20.4%	19.8%	
EBIT	423	253	67.2%
<i>EBIT Margin</i>	11.6%	7.1%	
CORE EBIT	475	436	8.9%
<i>CORE EBIT Margin</i>	13.0%	12.2%	
Financing Costs	(60)	(119)	(49.6%)
<i>Tax Rate</i>	15.0%	17.0%	
Profit for the Period	237	87	172.4%
EPS (CHF) Basic	4.56	1.67	173.1%
EPS (CHF) Basic CORE	6.79	4.99	36.1%
Operational Free Cash Flow	476	519	(8.3%)
Change in Net Working Capital	(94)	42	
Capital Expenditures	180	210	(14.3%)
<i>CORE RONO A</i>	14.3%	12.3%	16.3%
Net Debt	2,011	2,103	(4.4%)
Number of Employees	9,809	9,935	(1.3%)

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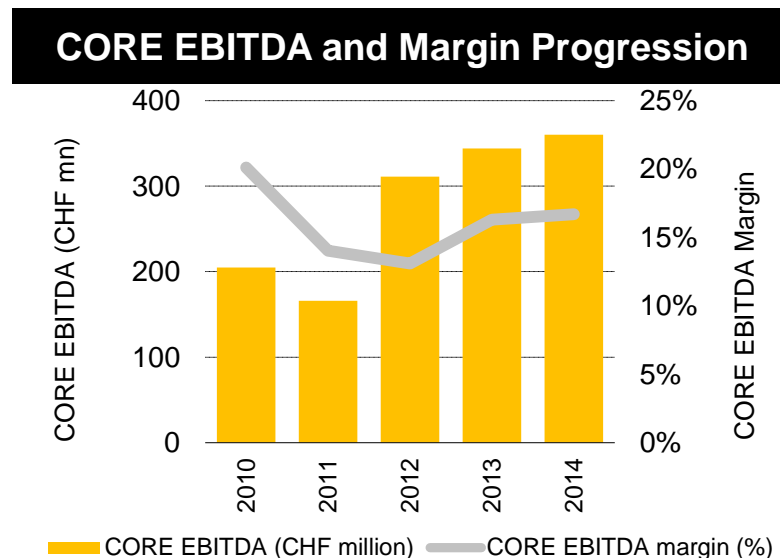
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Full-Year Report **14**

Specialty Ingredients

Key Figures		
CHF (mn)	2014	% Changes YoY
Sales	2,154	2.2
CORE* ¹ EBITDA	360	4.7
Margin	16.7	
CORE* ¹ EBIT	272	7.1 (13.0% in CER ²)
Margin	12.6	



- **Consumer Care** delivered solid results based on growing market demand and innovation
- Excellent performance of the **Agro Ingredients** business based on rising demand, new product launches and innovation
- **Industrial Solutions** performed as planned based on good demand for new products introduced
- **Water Treatment** was substantially impacted by unfavorable weather conditions
- **Wood Protection** delivered solid results coming from improved residential and industrial segments

¹ – CORE definition: see appendix

² – CER: constant exchange rates

Business Highlights

Consumer Care

Hygiene

- Strong growth in formulated solutions and wipes driven by a heightened focus on food safety, hospital sterilization and hand hygiene
- Reformulation in antibacterial hand soaps introduced to multinationals in anticipation of ban on Triclosan
- Lonza is well poised with advanced registrations and formulations that are already U.S. EPA and EU BPR compliant and due for further promulgation in 2015

Nutrition

- New niacinamide plant in Nansha (CN) started up as planned, driving further manufacturing efficiency in a globally growing market
- Vitamin B3 in feed markets strong in the absence of Avian bird flu while human-nutrition market experienced challenges
- L-Carnitine business remained stable throughout the year

Personal Care

- Antidandruff business remained strong and introductions to new multinational customers and major private-label producers were initiated successfully
- Four new products (hair conditioning, skin care leave-on, anti-aging, anti-wrinkle) were successfully introduced and accepted by the market with necessary REACH* registration in Europe completed
- Zinc pyrithione technology gains traction in the clinical odor control market, with bar soap and body wash replacing other deodorizing chemistries

Business Highlights

Agro Ingredients and Industrial Solutions

Agro Ingredients

- Chemical and Biotechnological Custom Manufacturing experienced a substantially better H2, in line with our expectations
 - Significant sales growth with all major innovative agrochemical companies resulting in high capacity utilization both in chemical and biotech-fermentation manufacturing
 - Successful launch of four new active crop-protection products
- Meta™ experienced favorable wet-weather conditions
 - Formulated product AXCELA™ obtained registration and launched in >10 countries
 - Strategic geographic expansion in NAFTA, South America, Asia and South Africa is running according to plan for active substance and for specific formulations
- Formulation-ingredient offerings for preservation and pre- and post-harvest treatments experienced solid demand

Industrial Solutions

- Coatings and Composites
 - Strong biocides demand for antifouling paints, building products and metalworking fluids
 - Electronics and aerospace markets had strong demand for cyanate resins
- Performance Ingredients
 - Solid demand in all regions throughout the year

Business Highlights

Wood Protection and Water Treatment

Wood Protection

- Improved sales driven by stronger industrial and residential demand in North America (new construction and improvements in housing repair and remodeling spend)
- Strong increase in sales and volume in EMEA, especially in the UK and South Africa, compensated for lower volumes in South America
- Good progress made with environmentally friendly and innovative products

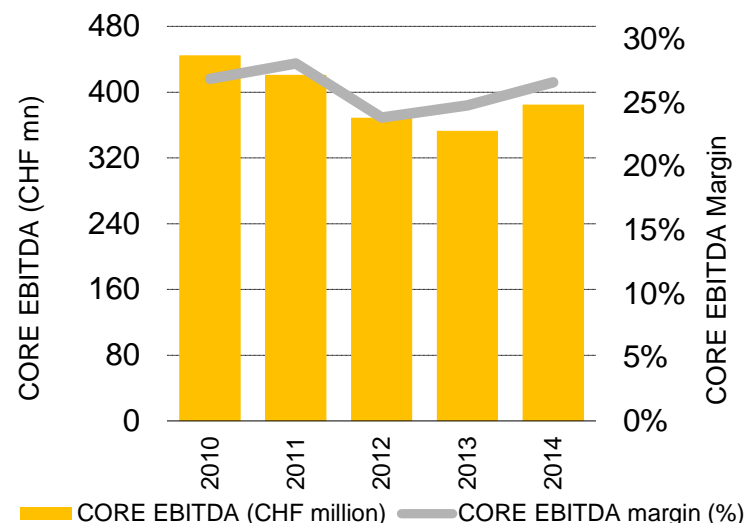
Water Treatment

- Residential Water Treatment business was substantially impacted by unfavorable weather conditions for the second consecutive year
- Industrial, Commercial, Municipal and Surface Water (ICMS) business reorganized regional teams and started building a global management structure

Pharma&Biotech

Key Figures		
CHF (mn)	2014	% Changes YoY
Sales	1,446	1.4
CORE*¹ EBITDA	385	9.1
Margin	26.6	
CORE*¹ EBIT	245	18.4 (15.2% in CER ²)
Margin	16.9	

EBITDA and Margin Progression



- Solid out- and dual-sourcing trends resulted in firm contract signing for commercial and clinical-stage products across nearly all technologies, but mainly biopharma, in Custom Manufacturing
- Manufacturing demand resulted in robust capacity utilization and high number of successful product transfers, combined with successful customer audits and inspections by regulatory authorities
- Market interest in new technologies rising constantly (e.g. ADC, cell and viral therapy)

¹ – CORE definition: see appendix

² – CER: constant exchange rates

Business Highlights

Custom Manufacturing

- Completion of several new long-term commercial agreements and contract extensions
- Regulatory approval received for various small organic molecules projects (e.g. Pharmacyclics' Imbruvica™), some of them showing promising market development
- Successful start-up of second ADC facility in Visp and future early-stage projects secured
- Additional orders contribute to increased utilization for microbial fermentation in Visp
- Demand for viral therapy remains strong driven by ongoing high level of investment in viral gene therapies
- Strong pipeline driven by increased funding available to cell therapy developers through public market and large pharma investments
- Appropriate investments in Quality Control and Quality Assurance remain high on the agenda

Business Highlights

Custom Development & Bioscience Solutions

Custom Development Services

- Growing customer demand seen across all technologies in 2014
- Core technology platforms strengthened to address industry challenges
- Regional footprint continues to expand in Asia territory for all technologies
- Development completed for process to manufacture GMP-grade induced pluripotent stem cells (iPSC), enabling their use for clinical studies

Bioscience Solutions

- Solid development with product offerings to the pharma, biotech and research industries
- Research Products – Recovery of the European research market; but United States, South America and Japan are lagging
- Testing Solutions – Endotoxin-detection assays experienced lower demand from pharmaceutical and biotech customers
- Bulk & Custom Media – Positive development strongly driven by progressing long-term Sartorius collaboration
- MODA, Paperless QC Micro Solution – Successful in U.S. biotechs, in large pharma companies in APAC and with new business in Europe

Outlook 2015

- Reconstruction of Lonza will continue in 2015 as announced
- We are well positioned for further measurable positive development in 2015
- Underlying business performance leads us to be confident we will grow sales and profit in 2015
- However, due to the recent and unexpected volatility in financial and currency markets, Lonza has decided to re-evaluate its outlook and to provide guidance for 2015 at a later stage
- Lonza continues to have a positive outlook for the future as it is well positioned in its markets
- Also Lonza has achieved a substantially better natural hedge with the Euro and U.S. dollar since the acquisition of Arch and a more balanced spread of investments globally
- Mid-term guidance until 2018 will be provided during our Q1 2015 qualitative business update on 28 April 2015

Calendar of Events & Contacts

Important Lonza Group Dates

- 21 Jan 2015 Full-Year 2014 Results
- 08 Apr 2015 Annual General Meeting
- 28 Apr 2015 First-Quarter 2015 Business Update
- 22 July 2015 Half-Year 2015 Results
- 29 Oct 2015 Third-Quarter 2015 Business Update

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Appendices

CORE Results as Defined by Lonza

Lonza believes that disclosing CORE results of the Group's performance enhances the financial markets' understanding of our company because the CORE results enable better comparison across years. Therefore, the CORE results exclude exceptional items such as restructuring charges, impairments and amortization of acquisition-related intangible assets, which can differ significantly from year to year. For this same reason, Lonza uses these CORE results in addition to IFRS as important factors in internally assessing the Group's performance.

Net debt 2013-2014

