

Corporate



## **Science and Technology for Pharma & Biotech, Nutrition and Well-being**

**2013 Half-Year Results - 25 July 2013**

**Richard Ridinger - CEO**

© Lonza

# **Lonza**

## Forward-looking

Certain matters discussed in this presentation may constitute forward-looking statements. These statements are based on current expectations and estimates of Lonza Group Ltd, although Lonza Group Ltd can give no assurance that these expectations and estimates will be achieved. Investors are cautioned that all forward-looking statements involve risks and uncertainty and are qualified in their entirety. The actual results may differ materially in the future from the forward-looking statements included in this presentation due to various factors. Furthermore, except as otherwise required by law, Lonza Group Ltd disclaims any intention or obligation to update the statements contained in this presentation.

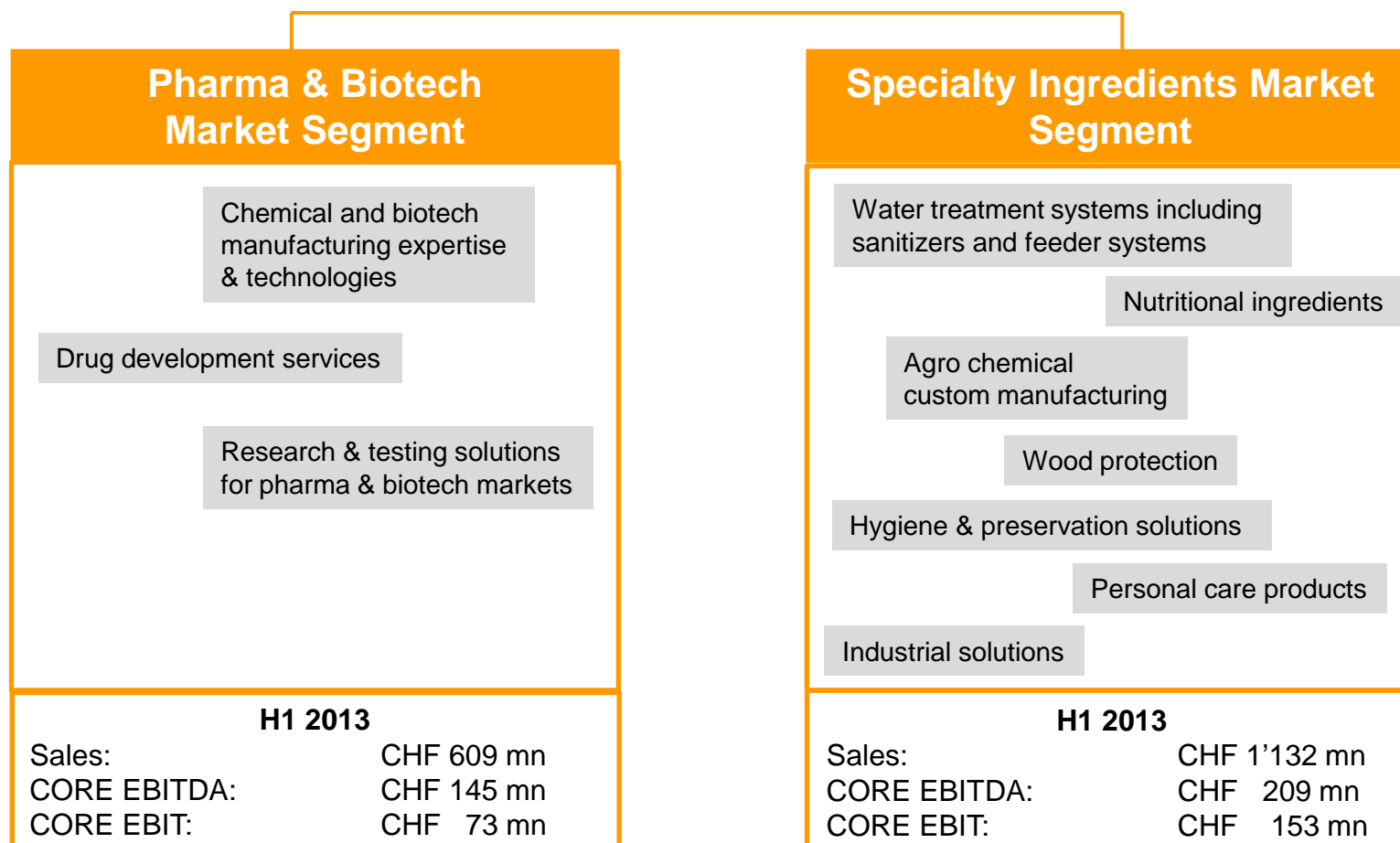


# Table of Contents

- **Highlights Half-Year 2013**
- Financial Results H1 2013
- Business Performance H1 2013
- Summary & Outlook

# Market Segments Lonza

## Lonza



# 2013 Half Year Results – Business Key Facts

In the first half of 2013, the two market segments, Specialty Ingredients and Pharma&Biotech, performed better as expected on a CORE EBIT basis

## **Specialty Ingredients market segment**

- Solid performance in nearly all sub-segments based on strong demand with substantially increased profitability despite weaker water market
- Cost reductions and productivity improvements show first positive impact
- High asset utilization in most technologies

## **Pharma&Biotech market segment**

- Capacity utilization across the entire network at budgeted lower levels
- Reasons for lower revenues are adjustments to Singapore large scale biotech and Visp (CH) ADC plant to accommodate new market requirement. In Hopkinton we focused on operational improvements and less on acquiring new projects
- Solid outsourcing trend resulting in enlarged project pipeline and in meaningful new contracts leading to improved visibility going forward

# Transformational Activities to Increase Productivity on a Group Level (I)

- Optimized global manufacturing footprint and further optimizations will result in an anticipated cost base reduction of CHF 100 mn by end of 2016
  - Main focus areas are site consolidations, fixed cost reductions and production process improvements
- Manufacturing sites activities planned for:
  - Hopkinton, MA (USA) – On 24 July 2013, the Board of Directors decided to concentrate and consolidate our future Microbial Biologics assets and activities in our Visp (CH) site. As a result, our Microbial Biologics plant in Hopkinton will be phased down. This phasedown will not affect our obligations to existing Hopkinton customers
  - St. Beauzire, (FR) - After the termination of consultation with the staff representative of Lonza Bioscience Ltd, Lonza has decided the cessation of the activities on the Saint-Beauzire site in the fourth quarter of 2013
  - Closure of Swords (IE) as previously announced – facility successfully closed in Q2 and activities transferred to Rochester, NY (USA) and Suzhou (CN)
  - The activities in Hopkinton, St.Beauzire and Swords lead to a headcount reduction of ~250 positions until end of 2013

## Transformational Activities to Increase Productivity on a Group Level (II)

- Business portfolio optimizations:
  - Carveout of Wood Protection business planned with all strategic options to be considered
  - Sale of Performance Products business (Brandenburg) concluded by end 2012
- VispChallenge project and Corporate Functions review completely on track
- Headcount at 10'274 (10'789 end year 2012), reduction mainly based on site closure of Swords, VispChallenge and Corporate Functions reduction

## Teva and Lonza Announce Mutual Decision to Discontinue Biologics Joint Venture

- Following a strategic review of the Teva-Lonza Joint Venture, the companies have decided to discontinue their collaboration for the development, manufacturing and marketing of biosimilars
  - Assessment showed that investments in biosimilar will require more capital than initially planned
  - Cease investing in areas that are not strategic to Lonza such as clinical developments and end product commercialization
  - Longer time to reach the market
- Lonza to focus on core expertise in the contract manufacturing and cell line construction and development
- Teva to pursue its biologics strategy to create a balanced portfolio of biosimilars, biobetters and innovative biologics
- Both companies will explore opportunities to maximize the value of the investments and progress this JV has made to this point
- Reduction of Lonza's committed investment over next 3 years by >CHF 150 mn



# Table of Contents

- Highlights Half-Year 2013
- **Financial Results H1 2013**
- Business Performance H1 2013
- Summary & Outlook

## 2013 Half Year Results – Financial Key Facts

- CORE EBIT increased by 9.8% to CHF 213 mn
- EBIT before Hopkinton impairment increased by 11.0% to CHF 181 mn
- EBIT including Hopkinton impairment stands at CHF 112 mn
- Revenues at CHF 1744 mn (-11.2%) or -6.8% without Performance Products
- Operational free cash flow at CHF 68 mn (CHF 284 mn in H1/2012) due to high seasonal inventory levels in the Water Treatment and the Custom Manufacturing businesses
- Net debt decreased by 4.5% to CHF 2'417 mn (compared to H1 2012) after payment of dividend. Net debt/EBITDA 3.33x
- Capital expenditure at CHF 86 mn, down 39.0%
- Successful placement of a CHF 300 mn straight bond at favorable conditions

# Key Financial Figures

| CHF mn                                      | H1 2013 | H1 2012 <sup>*1</sup> | Change<br>YoY <sup>*2</sup> |
|---|---------|-----------------------|-----------------------------|
| Sales                                       | 1'744   | 1'964                 | (11.2%)                     |
| <i>(Sales without Performance Products)</i> | 1'744   | 1'871                 | (6.8%)                      |
| EBITDA                                      | 334     | 322                   | 3.7%                        |
| <i>EBITDA Margin</i>                        | 19.2%   | 16.4%                 |                             |
| CORE EBITDA                                 | 346     | 334                   | 3.6%                        |
| <i>CORE EBITDA Margin</i>                   | 19.8    | 17.0                  |                             |
| EBIT before Hopkinton impairment            | 181     | 163                   | 11.0%                       |
| <i>EBIT Margin</i>                          | 10.4%   | 8.3%                  |                             |
| EBIT including Hopkinton impairment         | 112     | 163                   | (31.3%)                     |
| <i>EBIT Margin</i>                          | 6.4%    | 8.3%                  |                             |
| CORE EBIT                                   | 213     | 194                   | 9.8%                        |
| <i>CORE EBIT Margin</i>                     | 12.2%   | 9.9%                  |                             |
| Financing costs                             | (58)    | (54)                  | 7.4%                        |
| <i>Tax rate</i>                             | 16.0%   | 19.0%                 |                             |
| Profit for the period                       | 41      | 84                    | (51.2%)                     |
| EPS (CHF) basic                             | 0.79    | 1.63                  | (51.5%)                     |
| EPS (CHF) basic CORE                        | 2.45    | 2.23                  | 9.9%                        |
| Operational Free Cash Flow                  | 68      | 284                   | (76.1%)                     |
| Change in net working capital               | 182     | (95)                  |                             |
| Capital Expenditures                        | 86      | 141                   | (39.0%)                     |
| <i>RONOA (before Hopkinton impairment)</i>  | 8.1%    | 7.4%                  |                             |
| <i>RONOA (incl. Hopkinton impairment)</i>   | 6.6%    | 7.4%                  |                             |
| <i>CORE RONO</i>                            | 11.8%   | 10.9%                 |                             |
| Net Debt                                    | 2'417   | 2'531                 | (4.5%)                      |
| Number of employees                         | 10'274  | 11'084                | (7.3%)                      |

# Table of Contents

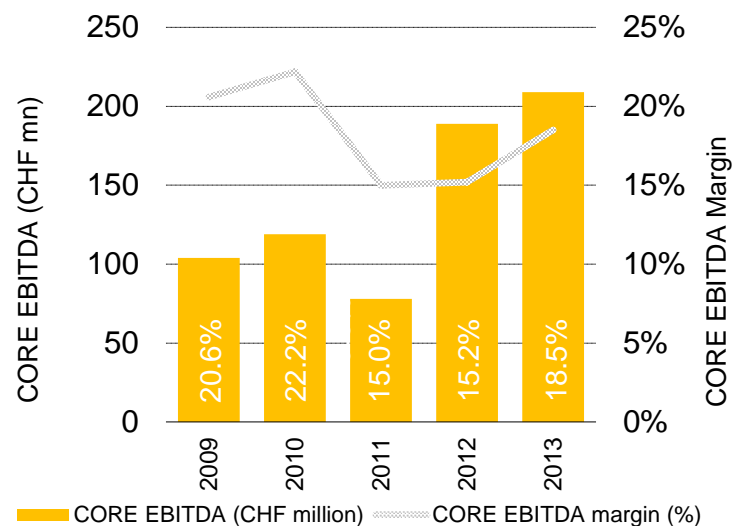
- Highlights Half-Year 2013
- Financial Results H1 2013
- **Business Performance H1 2013**
- Summary & Outlook

# Specialty Ingredients (I)

## Key Figures

| CHF (mn)    | H1 2013 | Changes YoY*1 |
|-------------|---------|---------------|
| Sales       | 1'132   | (1.6)*2       |
| CORE EBITDA | 209     | 10.6          |
| Margin      | 18.5    |               |
| CORE EBIT   | 153     | 13.3          |
| Margin      | 13.5    |               |

## CORE EBITDA and Margin Progression



- Solid performance in nearly all sub-segments based on strong demand with substantially increased profitability despite weaker water market
- Cost reductions and productivity improvements show first positive impact
- High asset utilization in most technologies

# Specialty Ingredients Market Segment (II)

## HY 2013 Update

### **Personal Care**

- Preservatives had a good first half
- Introduction of new and innovative products for antiaging, antiacne and a natural preservative in cosmetic products sees good demand

### **Nutrition**

- Nutrition products were ahead of target based on solid market demand
- Niacin prices and margins stabilized in the first half of 2013
- Carnitine offerings performed positively however, price pressure remained

### **Hygiene & Preservation**

- Globally strong in the home care / industrial & institutional segments but with price pressure in Europe
- Disinfectant grade products effective against Influenza virus Type A, Norovirus
- Increasing interest for disinfectant wipes to combat hospital-acquired infections

# Specialty Ingredients Market Segment (III)

## HY 2013 Update

### Agro Offerings

- Strong growth compared to 2012 with production capacities in our key assets fully booked
  - Capacity expansion on plan (start up Q4 2013)
- Agro Biotech experienced growing interest resulting in a steadily growing pipeline and first commercial sales
- Meta™ (metaldehyde) experienced favorable business conditions due to wet weather
- Strong demand for ready-to-use crop protection formulations (Proxel™)

### Water Treatment

- Recreational water business impacted by cold weather conditions in the respective geographic areas
- Rigid inventory control at customers
- Industrial, Commercial and Municipality (ICM) markets on expected levels
  - Proprietary and uniquely designed feeder systems gain traction in emerging markets

# Specialty Ingredients Market Segment (IV)

## HY 2013 Update

### Wood Protection

- Delivered on target with slightly increased volume in North America in residential sector
- Expanded presence in Do-it-yourself retail chains
- Continued market expansion in Europe despite poor economic conditions
- Good year over year sales in Asia Pacific in industrial preservatives despite regional impact of slower growth in China

### Industrial Solutions

- Strong demand for High Performance products from electronics and aerospace industries
- Oleo Chemical Derivatives facing intense price competition but margins are stable due to strict cost control
- Materials Protection products in building materials and antifouling paints performed in line with expectations

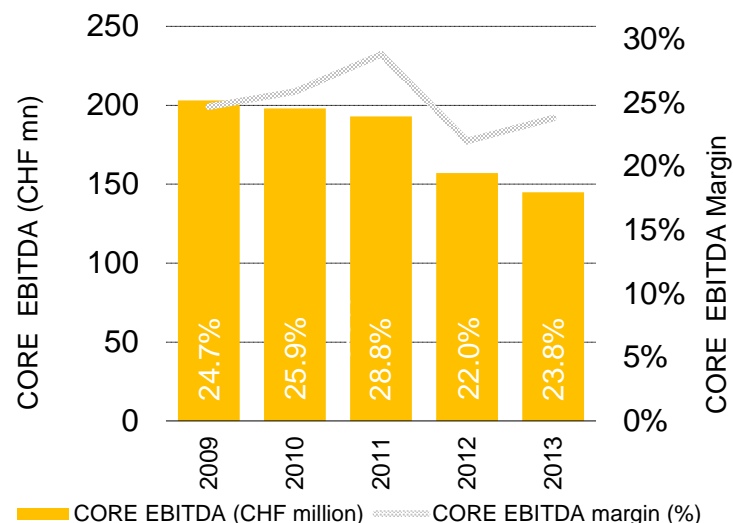


# Pharma & Biotech (I)

## Key Figures

| CHF (mn)           | H1 2013 | Changes YoY* |
|--------------------|---------|--------------|
| <b>Sales</b>       | 609     | (14.6)       |
| <b>CORE EBITDA</b> | 145     | (7.6)        |
| <b>Margin</b>      | 23.8    |              |
| <b>CORE EBIT</b>   | 73      | (2.7)        |
| <b>Margin</b>      | 12.0    |              |

## CORE EBITDA and Margin Progression



- Capacity utilization across the entire network at budgeted lower levels
- Reasons for lower revenues are adjustments to Singapore large scale biotech and Visp (CH) ADC plant to accommodate new market requirement. In Hopkinton we focused on operational improvements and less on acquiring new projects
- Solid outsourcing trend resulting in enlarged project pipeline and in meaningful new contracts leading to improved visibility going forward

# Pharma & Biotech (II)

## Custom Manufacturing

- H1 results impacted by:
  - scheduled production stop of the ADC plant in Q1
  - plant adaptations in our Singapore facility to accommodate new products, more frequent product change-over to ensure security of supply to customers
  - In Hopkinton we focused on operational improvements and less on acquiring new projects
- On 24 July 2013, the Board of Directors decided to concentrate and consolidate our future Microbial Biologics assets and activities in our Visp site where we successfully operate large and small scale assets of that technology for many years. As a result our microbial biologics plant in Hopkinton, MA will be phased down. This phasedown will not affect our obligations to existing Hopkinton customers. The Board of Directors approved:
  - An impairment of CHF 69 million has been accounted for in H1 2013
  - We plan to reduce our headcount on this site and will have restructuring costs of about CHF 34 million which will be booked in H2 2013
- Strong pipeline development for long term assets utilization
- Increased demand for integrated ADC offering with full service from mAb manufacture to conjugation in Slough (UK) and Visp (CH)
- Our global pharma network had 16 successful inspections by regulatory authorities

# Pharma & Biotech (III)

## Custom Development Services

- Singapore Development Services lab fully operational meeting successfully interest of Asian customers
- Developability Assessment Platform launched – supports reduced attrition rates of project candidates
- Signed agreement to develop a novel cytotoxic payload for potential use with multiple ADC projects

## Bioscience Solutions

- Solid performance with improved profitability
  - Emerging markets especially BRIC showed double-digit revenue growth
  - U.S. and European markets continue to suffer from slow economic situation
- Long-term Sartorius media collaboration progressing and on track
- Testing Solutions saw strong endotoxin sales overall driven by stronger growth in Asia
- Development of robust cGMP compliant processes for induced pluripotent stem cells (iPSCs). Lonza will be the first CMO to produce iPSCs for clinical trials

# Table of Contents

- Highlights Half-Year 2013
- Financial Results H1 2013
- Business Performance H1 2013
- **Summary & Outlook**

# Summary and Outlook

- In the first half of 2013 the two market segments Specialty Ingredients and Pharma&Biotech performed better than expected on a CORE EBIT basis
- Increased profitability in Specialty Ingredients based on strong overall performance and first positive results of cost reductions and productivity improvements
- Pharma&Biotech – good visibility due to new contracts signed
- Manufacturing footprint program initiated and first sites activities started
- Teva and Lonza announce mutual decision to discontinue biologics joint venture
- Portfolio review well under way - Wood Treatment carveout project initiated
- The corporate strategic tasks and initiatives initiated in 2012 and 2013 make us confident to achieve our financial targets:
  - For 2013 – reiteration of CORE EBIT growth of appr. 10%
  - For 2014 – Lonza expects a further double digit CORE EBIT growth
  - For 2015 – Lonza reiterates the target of an EBITDA margin of 20% and a net debt/EBITDA ratio of ~2x
- A Capital Markets Day will be held on 14 May 2014 in Slough, UK

# Calendar of Events and Contacts

## Important Lonza Group Dates

- 25 July 2013 Half-Year 2013 results
- 31 Oct 2013 Third Quarter 2013 business update
- 23 Jan 2014 Full-Year 2013 results
- 16 Apr 2014 Annual General Meeting
- 24 Apr 2014 First Quarter 2014 business update
- 14 May 2014 Capital Markets Day in Slough, UK
- 24 July 2014 Half-Year 2014 results

## Contacts

Dominik Werner  
Corporate Communications  
T +41 61 316 8798  
F +41 61 316 9798  
[dominik.werner@lonza.com](mailto:dominik.werner@lonza.com)

Dirk Oehlers  
Investor Relations  
T +41 61 316 8540  
F +41 61 316 9540  
[dirk.oehlers@lonza.com](mailto:dirk.oehlers@lonza.com)

# Further Information

## **CORE results as defined by Lonza**

Lonza believes that understanding in the financial markets of the Group's performance is enhanced by disclosing core results of performance 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 assessing the Group's performance.



# Key Opportunities

## Key Opportunities for Lonza

- 1 Stronger Focus on Target Markets**
  - B2B-marketing and sales approach
  - Emerging markets expansion
- 2 Near Term Cost Reduction**
  - Arch integration
  - VispChallenge
  - Corporate Functions review
- 3 Longer Term Operational Improvements**
  - Manufacturing / Administration
  - Site / legal entity consolidation
- 4 Cash Focus**
  - De-leveraging
  - EBITDA growth, capex / NWC control
- 5 Portfolio Management**
  - Business portfolio
  - Product portfolio

### 2013

Reiteration of given guidance:

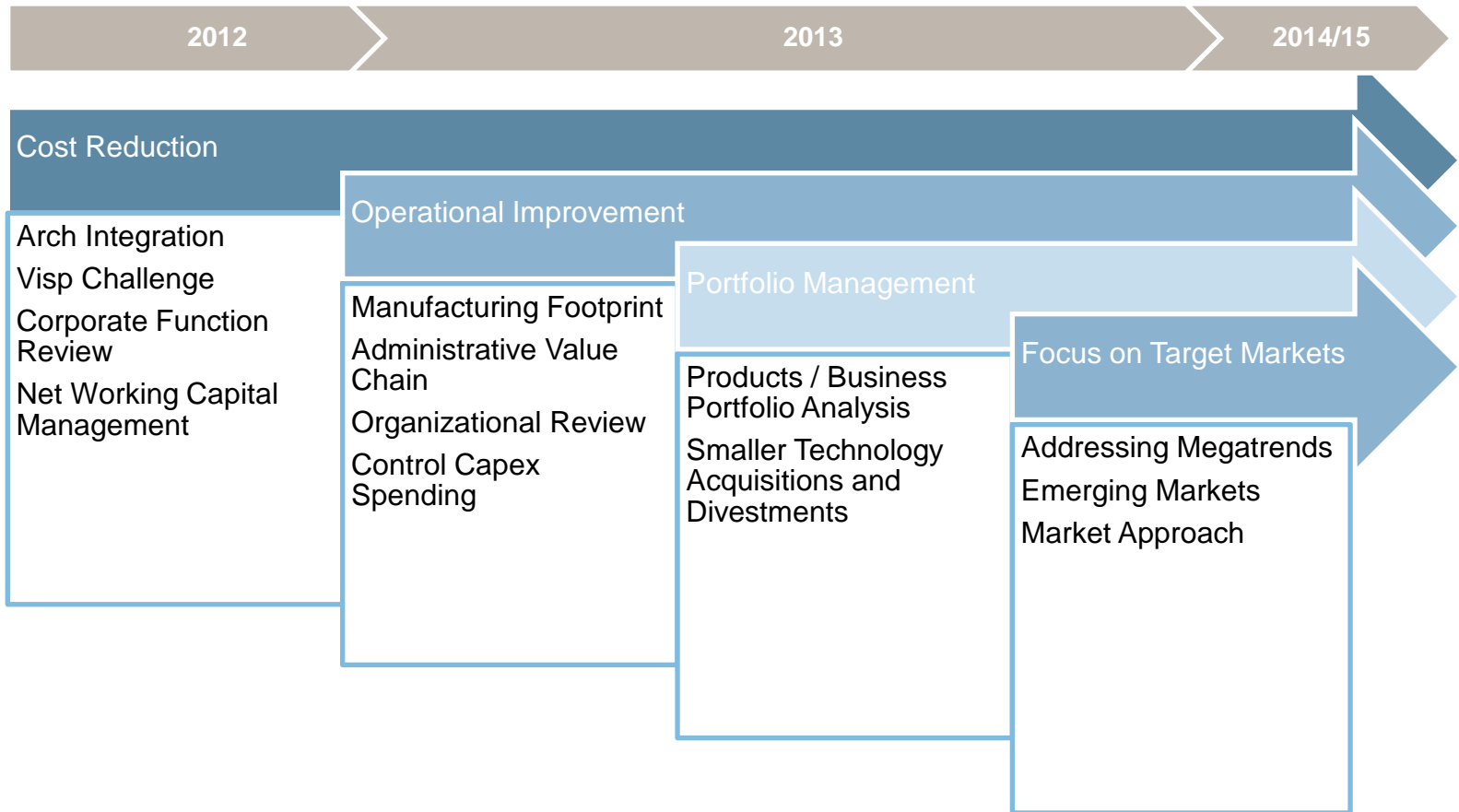
- CORE EBIT 2013 growth =
- CORE EBIT 2012 plus ~10%

### 2015\*

- Mid single-digit annual sales growth
- EBITDA margin: 20% (2012: 16.6%)

\* based on current fx and business composition

# Roadmap – The Path to Sustainable, Profitable Growth on a Solid Basis



Capital efficiency, return on net operating assets (RONOA), substantially reduced CAPEX