

Alternative Performance Measures

Full-Year 2022



Introduction

This Finance Report and other communications with investors and analysts include Alternative Performance Measures (APMs) that are not defined by IFRS (non-GAAP-measures) but are used by the management to assess the financial and operational performance at a divisional and group level. These supplementary financial measures should not be viewed in isolation or as alternatives to Lonza's consolidated financial position and financial results, which are reported in accordance with IFRS. Instead, our APMs are intended to provide a complementary perspective on Lonza's performance by isolating distorting effects like exchange rate fluctuations or one-time items. They are also intended to provide additional key performance indicators to complement the performance dashboard. The APMs in use may not correspond to performance measures with similar names in other companies. Every APM shown in the financial report relates to the performance of the current or the previous reporting year.

The APMs are structured in operational Performance Measures as well as Liquidity and Capital Measures.

The operational Performance Measures consist of the definition of the CORE concept, the derivation of EBITDA (CORE and non-CORE) and the disclosure of profitability measures at constant exchange rates. The Liquidity and Capital Measures consist of Net Debt and ratios based on Net Debt and Return on Invested Capital, as well as Operational Free Cash Flow.

The following table outlines which APMs are applied on divisional level and respectively on group level.

In the following tables, all financial information referring to 2021 are based on "continuing operations" (that are exclusive of the Specialty Ingredients business) unless explicitly stated otherwise.

Performance Measures	Division	Group
Sales and sales growth at constant exchange rate	●	●
CORE EBITDA / CORE EBITDA margin	●	●
EBITDA	○	●
CORE EPS	○	●
CAPEX	●	●

Liquidity and Capital Measures	Division	Group
Net Debt	○	●
Net Debt / CORE EBITDA ratio	○	●
Debt / Equity ratio	○	●
Return On Invested Capital (ROIC)	○	●
Operational Free Cash Flow (before and after acquisition)	○	●

Performance Measures

CORE Results

As exceptional items can differ significantly from year to year, Lonza excludes these exceptional effects from the reported IFRS results to determine the CORE results.

We believe that disclosing CORE results of the Group's performance enhances the financial markets' understanding because the CORE results enable better year-on-year comparisons. Furthermore, the Group uses CORE results in addition to IFRS as important factors when internally assessing the Group's performance.

The following exceptional items are considered as CORE adjustments that exceeds the threshold of CHF 20 million per event¹:

- Restructuring income and expenses,
- Environmental-related income and expenses (related to historical environmental issues only),
- Acquisition and divestiture related income and expenses,
- Impairments and reversals of related impairments,
- Litigations,
- One-time effects arising from changes to pension plans (curtailments and settlements).

In accordance with the CORE results, APMs such as CORE Earnings per share (CORE EPS) and CORE EBITDA are directly affected by the exclusion of the adjustments listed above.

The reconciliation of the IFRS result to the CORE result for the Full-year 2022 and 2021 is as follows:

Million CHF	2022	2021
IFRS Profit	1'218	677
CORE adjustments		
Environmental remediation expenses	27	300 ²
(Income) / expense resulting from acquisition and divestitures	(202)	0
Litigations	31 ³	0
Tax effect ⁴	23	(33)
CORE Profit	1'097	944
CORE Profit attributable to equity holders of the parent	1'094	941
CORE Earnings per share attributable to equity holders of the parent	14.74	12.67

¹ In the context on the CORE definition, an "event" represents an individual business case that might involve income/expenses across several fiscal years

² In 2021, environmental remediation expenses predominantly relate to Gamsenried (CH). Refer to note 14 disclosed in the Lonza Annual Report 2021

³ Litigation related to a Lonza legacy site / business

⁴ Group tax rate on continuing operations of 15.9% for 2022 and 10.9% for 2021

Earnings before interest, tax, depreciation and amortization (EBITDA) from Continuing Operations

In line with the CORE adjustments, Lonza assesses operational performance based on CORE EBITDA, which can be reconciled in two steps:

Million CHF	2022	2021
Result from operating activities (EBIT)	1'541	851
Depreciation of property, plant and equipment	409	347
Amortization of intangible assets	187	175
Impairment and reversal of impairment on property, plant, equipment and intangibles	2	(8)
Earnings before interest, taxes and depreciation (EBITDA)	2'139	1'365

Million CHF	2022	2021
Earnings before interest, taxes and depreciation (EBITDA)	2'139	1'365
Environmental remediation expenses ¹	27	300 ¹
(Income) / expense resulting from acquisition and divestitures	(202)	0
Litigations	3 ²	0
CORE EBITDA	1'995	1'665

¹ In 2021, environmental remediation expenses predominantly relate to Gamsenried (CH). Refer to note 14 disclosed in the Lonza Annual Report 2021

² Litigation related to a Lonza legacy site / business

Growth at constant exchange rates

Financial results in constant currencies are adjusted to eliminate the impact of changes in exchange rates between the reported and reference period – typically the prior year. This adjustment allows management to focus on operational results, without any distorting effect from changes in foreign currency exchange rates from one period to another.

Constant currency is calculated by converting sales and CORE EBITDA of the current year at the exchange rate of the prior year. The resulting margins can therefore be compared with the reported profit margins of the prior year to understand fundamental business trends.

Lonza Group (Continuing Operations)

Million CHF	2022	2021	Change in %
Sales	6'223	5'409	15.0
Retranslation at prior year rates	4		
Sales in constant currency	6'227		15.1
CORE EBITDA	1'995	1'665	19.8
Retranslation at prior year rates	(13)		
CORE EBITDA in constant currency	1'982		19.0
Margin in %	31.8		

Biologics

Million CHF	2022	2021	Change in %
Sales	3'274	2'699	21.3
Retranslation at prior year rates	12		
Sales in constant currency	3'286		21.7
CORE EBITDA	1'228	979	25.4
Retranslation at prior year rates	(11)		
CORE EBITDA in constant currency	1'217		24.3
Margin in %	37.0		

Small Molecules

Million CHF	2022	2021	Change in %
Sales	819	767	6.8
Retranslation at prior year rates	(7)		
Sales in constant currency	812		5.9
CORE EBITDA	248	215	15.3
Retranslation at prior year rates	(2)		
CORE EBITDA in constant currency	246		14.4
Margin in %	30.3		

Cell & Gene

Million CHF	2022	2021	Change in %
Sales	693	602	15.1
Retranslation at prior year rates	(9)		
Sales in constant currency	684		13.6
CORE EBITDA	116	106	9.4
Retranslation at prior year rates	0		
CORE EBITDA in constant currency	116		9.4
Margin in %	17.0		

Capsules and Health Ingredients

Million CHF	2022	2021	Change in %
Sales	1'266	1'204	5.1
Retranslation at prior year rates	9		
Sales in constant currency	1'275		5.9
CORE EBITDA	418	414	1.0
Retranslation at prior year rates	4		
CORE EBITDA in constant currency	422		1.9
Margin in %	33.1		

Corporate

Million CHF	2022	2021
Sales	171	137
Retranslation at prior year rates	(1)	
Sales in constant currency	170	
CORE EBITDA	(15)	(49)
Retranslation at prior year rates	(4)	
CORE EBITDA in constant currency	(19)	

Liquidity and Capital Measures

Net debt, net debt / CORE EBITDA ratio, Debt / Equity ratio

Net debt represents the net level of financial debt contracted by the Group with external parties (e.g. bonds, term loans, private placements) after considering cash and investments readily convertible into cash. It is composed of the current and non-current financial debt, derivatives hedging financial debt and liquid assets, less cash and cash equivalent and short-term investments. Based on the determined total debt and net debt, Lonza uses further performance measures to demonstrate the relation between debt and profitability, as well as the ratio between debt and equity, to illustrate the gearing of the Group.

Million CHF	31 December 2022	31 December 2021	Change
Non-current debt	1'554	2'234	(680)
Current debt	678	169	509
Total debt	2'232	2'403	(171)
Non-current loans and advances	(194)	(177)	(17)
Short-term investments	(885)	(1'602)	717
Cash and cash equivalents	(1'339)	(1'582)	243
Total cash & cash equivalents, short term investments and loans and advances	(2'418)	(3'361)	943
Net debt / (net cash)	(186)	(958)	772
	31 December 2022	31 December 2021	
Net debt / (cash) / CORE EBITDA Ratio	(0.1)	(0.6)	
Debt / Equity Ratio	(0.0)	(0.1)	

Return On Invested Capital (ROIC) from Continuing Operations

Lonza defines the ROIC as Net Operating Profit After Tax (NOPAT) divided by the average invested capital of the Group. ROIC is the most appropriate measure to assess the capital efficiency as it discloses how the Group deploys capital to generate profits.

Components of average invested capital for the twelve-months period ended 31 December

Million CHF	2022	2021
Result from operating activities (EBIT)	1'541	851
Share of result of associates / joint ventures	2	(28)
CORE adjustments		
Environmental remediation expenses	27	300 ¹
Income resulting from acquisition and divestitures	(202)	0
Litigations	31 ²	0
Net operating profit before taxes	1'399	1'123
Taxes ³	(222)	(122)
Net operating profit after taxes (NOPAT)	1'177	1'001
Average invested capital	10'326	9'387
ROIC in %	11.4	10.7

1 In 2021, environmental remediation expenses predominantly relate to Gamsenried (CH). Refer to note 14 disclosed in the Lonza Annual Report 2021

2 Litigation related to a Lonza legacy site / business

3 Group tax rate on continuing operations of 15.9% for 2022 and 10.9% for 2021

Components of average invested capital for the twelve-months period ended 31 December

Million CHF	2022	2021
Intangible assets	2'368	2'560
Property, plant & equipment	5'389	4'079
Goodwill	2'928	3'079
Inventories	1'816	1'397
Trade receivables	971	766
Other operating receivables	297	303
Other assets	207	263
Trade payables	(439)	(379)
Other operating liabilities	(2'676)	(2'009)
Net current and deferred tax liabilities	(535)	(672)
Average invested capital	10'326	9'387

Operational Free Cash Flow (before and after acquisitions)

Operational Free Cash Flow measures cash generated by the Group's business operations and represents the capability to pay dividends, repay providers of debt, or carry out acquisitions. Moreover, Lonza distinguishes the Operational Free Cash Flow before and after the effect of any acquisitions and disposals.

Lonza's definition of operational free cash flow does not consider adjustments for non-cash items, as these are usually not significant and year-over-year fluctuations are limited. However, for Full-Year 2021, Lonza concluded to adjust for several non-cash transaction (Gamsenried environmental provision, sale of Speciality Ingredients business) which would have otherwise significantly distorted the Full-Year 2021 operational free cashflow.

Components of Operational Free Cash Flow¹

Million CHF	2022	2021	Change
Earnings before interest, taxes and depreciation (EBITDA)	2'138	3'683	(1'545)
Change of operating net working capital	(653)	(257)	(396)
Capital expenditures in tangible and intangible assets	(1'872)	(1'341)	(531)
Disposal of tangible and intangible assets	13	19	(6)
Change of other assets and liabilities	108	257	(149)
Gamsenried environmental remediation costs ²	0	285	(285)
Specialty Ingredients business - Recycling accumulated exchange rate effects	0	186	(186)
Gain from sales of assets held for sale and subsidiaries ³	(199)	(2'426)	2'227
Operational free cash flow (before acquisitions / divestitures)	(465)	406	(871)
Acquisition of subsidiaries ⁴	(10)	(47)	37
Divestiture of subsidiaries ³	238	4'092	(3'854)
Operational free cash flow	(237)	4'451	(4'688)

- 1 Operational Free Cash Flow represents Lonza Group incl. Discontinued Operations
- 2 In 2021, environmental remediation expenses predominantly relate to Gamsenried (CH). Refer to note 14 disclosed in the Lonza Annual Report 2021
- 3 In 2022, gains / cash inflows related the divestiture of several businesses in Bioscience and Small Molecule. In 2021, gain / cash inflows related to both LSI and Softgel Liquid-filled hard capsule divested businesses
- 4 Includes contingent consideration and deferred purchase price payments from prior years acquisitions

27 March 2023

Publication of Annual and Sustainability Reports

5 May 2023

Annual General Meeting

9 May 2023

Ex-Dividend Date

10 May 2023

Record-Dividend Date

11 May 2023

Dividend-Payment Date

21 July 2023

Half-Year Results 2023

Q4 2023

Capital Markets Day

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