

Alternative Performance Measures

Half-Year 2021



Introduction

As announced in the investor presentation of 15 October 2020, Lonza has decided to update the external financial reporting to include revised Alternative Performance Measures (APM).

The main objective was to reduce the number of APMs to include only the most critical ones and to increase the threshold of CORE adjustments to the appropriate materiality level, given Lonza's current size.

This Finance Report and other communications with investors and analysts includes 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:

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 when they exceed the threshold of CHF 20 million per event¹:

- Restructuring costs,
- Remediation costs of historic environmental issues,
- Acquisition and divestiture related expenses,
- 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 H1 2021 and 2020 is as follows:

Million CHF	2021	2020 restated
Profit from continuing operations	263	442
Environmental-related expenses ²	289	0
Income resulting from acquisition and divestitures ³	0	(1)
Contingent consideration expense from sale of businesses ⁴	1	0
Tax effect ⁵	(32)	0
CORE Profit from continuing operations	521	441
CORE Profit from continuing operations attributable to equity holders of the parent	519	440
CORE Earnings per share attributable to equity holders of the parent	6.99	5.93

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 Environmental remediation expenses predominantly relate to Gamsenried (CH). Refer to note 6 disclosed in the Selected Explanatory Notes of the Half-Year Report 2021.

3 Positive impacts related to the acquisition of Capsugel in 2017.

4 Negative impact from fair value adjustment on contingent purchase price consideration from the sale of the former Peptide business

5 Group tax rate on continuing operations of 11.2% for 2021 and 9.1% for 2020

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	2021	2020 restated
Result from operating activities (EBIT)	317	531
Depreciation of property, plant and equipment	162	137
Amortization of intangible assets	86	82
Impairment and reversal of impairment on property, plant, equipment and intangibles	(7)	0
Earnings before interest, taxes and depreciation (EBITDA)	558	750

Million CHF	2021	2020 restated
Earnings before interest, taxes and depreciation (EBITDA)	558	750
Environmental-related expenses ¹	289	0
Income resulting from acquisition and divestitures ²	0	(1)
CORE EBITDA	847	749

- 1 Environmental remediation expenses predominantly relate to Gamsenried (CH). Refer to note 6 disclosed in the Selected Explanatory Notes of the Half-Year Report 2021.
- 2 Positive impacts related to the acquisition of Capsugel in 2017.

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, CORE EBIT 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	2021	2020	Change in %
Sales	2'542	2'243	13.3
Retranslation at prior year rates	30		
Sales in constant currency	2'572		14.7
CORE EBITDA	847	749	13.1
Retranslation at prior year rates	13		
CORE EBITDA in constant currency	860		14.8
Margin in %	33.4		

Small Molecules

Million CHF	2021	2020	Change in %
Sales	362	315	14.9
Retranslation at prior year rates	5		
Sales in constant currency	367		16.5
CORE EBITDA	99	78	26.9
Retranslation at prior year rates	5		
CORE EBITDA in constant currency	104		33.3
Margin in %	28.3		

Biologics

Million CHF	2021	2020	Change in %
Sales	1'284	1'100	16.7
Retranslation at prior year rates	0		
Sales in constant currency	1'284		16.7
CORE EBITDA	490	461	6.3
Retranslation at prior year rates	7		
CORE EBITDA in constant currency	497		7.8
Margin in %	38.7		

Cell & Gene

Million CHF	2021	2020	Change in %
Sales	274	227	20.7
Retranslation at prior year rates	9		
Sales in constant currency	283		24.7
CORE EBITDA	44	(2)	n/a
Retranslation at prior year rates	0		
CORE EBITDA in constant currency	44		n/a
Margin in %	15.5		

Capsules and Health Ingredients

Million CHF	2021	2020	Change in %
Sales	602	584	3.1
Retranslation at prior year rates	16		
Sales in constant currency	618		5.8
CORE EBITDA	213	217	(1.8)
Retranslation at prior year rates	4		
CORE EBITDA in constant currency	217		0.0
Margin in %	35.1		

Corporate

Million CHF	2021	2020	Change in %
Sales	20	17	17.6
Retranslation at prior year rates	0		
Sales in constant currency	20		17.6
CORE EBITDA	1	(5)	n/a
Retranslation at prior year rates	(1)		
CORE EBITDA in constant currency	0		n/a

Specialty Ingredients (Discontinued Operations)

Million CHF	2021	2020	Change in %
Sales	887	831	6.7
Retranslation at prior year rates	24		
Sales in constant currency	911		9.6
CORE EBITDA	141	136	3.7
Retranslation at prior year rates	8		
CORE EBITDA in constant currency	149		9.6
Margin in %	16.4		

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	30 June 2021	31 December 2020	Change
Debt			
Non-current debt	2'789	2'784	5
Current debt	858	796	62
Current debt classified as held for sale	0	14	(14)
Total debt	3'647	3'594	53
Loans and Advances			
Non-current loans and advances	(159)	(162)	3
Cash and cash equivalents	(501)	(495)	(6)
Cash and cash equivalents classified as held for sale	(44)	(124)	80
Total loans and advances and cash and cash equivalents	(704)	(781)	77
Net debt	2'943	2'813	130
	2021	2020 restated	
Net debt / CORE EBITDA Ratio ¹	1.64	1.66	
Debt / Equity Ratio	0.40	0.40	

¹ Net debt / CORE EBITDA is calculated based on the CORE EBITDA of the last twelve months

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 an appropriate measure to assess capital efficiency as it tracks profit generation against capital deployment.

Components of average invested capital for the six-months period ended 30 June

Million CHF	2021	2020 restated
Result from operating activities (EBIT)	317	531
Environmental-related expenses	289	0
Income resulting from acquisition and divestitures ¹	0	(1)
Net operating profit before taxes	606	530
Taxes ²	(67)	(48)
Net operating profit after taxes (NOPAT)	539	482
Net operating profit after taxes (NOPAT), annualized³	1'078	964
Average invested capital	9'382	8'956
ROIC in %	11.5	10.8

1 Positive impacts related to the acquisition of Capsugel in 2017.

2 Group tax rate on continuing operations of 11.2% for 2021 and 9.1% for 2020

3 NOPAT for the six months ended 30 June multiplied by 2 to reflect a twelve month period

Components of average invested capital for the six-months period ended 30 June

Million CHF	2021	2020
Intangible assets	2'621	2'758
Property, plant & equipment	3'810	3'141
Goodwill	3'109	3'101
Inventories	1'277	1'069
Trade receivables	739	641
Other operating receivables	308	275
Other assets	264	241
Trade payables	(352)	(278)
Other operating liabilities	(1'712)	(1'271)
Net current and deferred tax liabilities	(682)	(721)
Average invested capital	9'382	8'956

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.

Components of Operational Free Cash Flow¹

Million CHF	2021	2020	Change
Earnings before interest, taxes and depreciation (EBITDA)	656	886	(230)
Change of operating net working capital	(280)	(314)	34
Capital expenditures in tangible and intangible assets	(516)	(416)	(100)
Disposal of tangible and intangible assets	6	3	3
Change of other assets and liabilities	106	71	35
Gamsenried environmental remediation cost ²	284	0	284
Operational free cash flow (before acquisitions / disposals)	256	230	26
Disposal of subsidiaries	120	0	120
Operational free cash flow	376	230	146

¹ Operational Free Cash Flow represents Lonza Group incl. Discontinuing Operations

² Refer to note 6 disclosed in the Selected Explanatory Notes of the Half-Year Report 2021

Appendix

Changes in Alternative Performance Measures presented

As communicated on 15 October 2020 as part of the Investor Update, Lonza's new reporting steering model leads to the elimination of the following APMs previously reported:

- CORE EBIT and CORE EBIT margin
- CORE Profit
- CORE RONOA

Change in definition of CORE adjustments

Lonza has significantly increased the thresholds of CORE adjustments for the financial year 2021 as well eliminated two categories entirely.

The following table compares the categories for CORE adjustments and thresholds applied per event of new vs. previous definitions:

Categories	New definitions	Previous definitions
Acquisition-related costs	> CHF 20 million	no threshold
Amortization of acquisition-related intangible assets	excluded	no threshold
Divestitures and related costs	> CHF 20 million	no threshold
Restructuring costs	> CHF 20 million	> CHF 0.5 million
Impairments (and related reversals)	> CHF 20 million	no threshold
Environmental-related expenses (related to historical environmental issues only)	> CHF 20 million	> CHF 10 million
Pension plans – curtailments and settlements	> CHF 20 million	> CHF 10 million
Litigations	> CHF 20 million	> CHF 10 million
Results from associates & joint ventures	excluded	no threshold

9 and 13 September 2021

Morgan Stanley 19th Annual Global Healthcare Conference (Virtual)

22 September 2021

Credit Suisse – Reverse Bus Tour (Virtual)

27 September 2021

BoA Merrill Lynch Roadshow (Virtual)

4 November 2021

ZKB - Swiss Equity Conference

26 January 2022

Full-Year Results 2021

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