



**Lonza**

## **Scientific and HighTech Solutions for Specialty Markets**

**2012 Half Year Results – 25 July 2012 – Richard Ridinger, CEO**

# Forward-looking

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# Agenda

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**I. H1 2012 Results**

**II. Initial Situation Assessment**

**III. Initial Perspectives on Lonza Today**

**IV. Financial Guidance**

**V. H1 2012 Sector Performance**

## 2012 Half Year Results – Financial Highlights

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- Revenue increased to CHF 1'964 mn, plus 64.6% mainly due to the acquisition in Microbial Control
- EBIT improved by 23.5% to CHF 168 mn.
  - Margins continued to be under pressure mainly from Niacin and Chemical Custom Manufacturing
- Operating free cash flow CHF 289 mn up 337.9% (CHF 66 mn in H1 2011)
- Core EPS at CHF 2.42 up 15.8%
- Net debt CHF 2 531 mn. Debt – equity ratio 1.08
- CAPEX at CHF 141 mn (CHF117 mn in H1 2011)

## 2012 Half Year Results – Business Highlights

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### Lonza overall

- Strong operational free cash flow delivery
- Underlying pleasing demand in all markets
- “Focus and Deliver” initiated and fully on track to delivery sustainable results
- Initiated growth projects moving forward

### Lonza Custom Manufacturing

- Solid project pipeline and satisfactory capacity utilization in both Chemical and Biological Manufacturing. Singapore in ramp-up phase
- Strong performance in Development Services

### Lonza Microbial Control

- Above budget performance based on solid demand
- Integration fully on track with delivery of synergies and cross-selling effects as planned

### Lonza Life Science Ingredients

- Robust demand in Nutrition Ingredients but unsatisfactory results due to price pressure
- Performance Intermediates experienced increasing demand especially in agro-chemicals

### Lonza Bioscience

- Substantial growth in Therapeutic Services and Asian markets
- Research Solutions on H1 2011 levels but Testing Solutions slightly behind

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## CEO Richard Ridinger

### Initial Assessment After 85 Days in Office

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“ With Lonza, I have joined a company with many great strengths and assets such as excellent technology platforms, a global footprint, broad high quality product offerings, a broad customer base and, of course, a highly committed and skilled workforce. While the overall strategy remains absolutely valid, I have identified a number of key opportunities which will help the company to return on a profitable growth path.

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# Key Opportunities for Lonza

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## Key Strengths of Lonza

- Excellent technology platforms
- Leading edge capabilities in biologics as well as process chemistry
- Global asset footprint
- Highly engaged and committed workforce
- Ability to be an innovation partner
- Access to new market segments following the acquisition of Arch
- #1 position in Custom Manufacturing and Microbial Control

I have inherited a high quality business with a lot of potential ...

## Key Opportunities for Lonza

- 1 Stronger Focus on Target Markets**
  - B2B-marketing and sales approach
  - Expansion into emerging markets
- 2 Near Term Cost Reduction**
  - Arch integration
  - Visp Challenge
- 3 Longer Term Operational Improvements**
  - Manufacturing / Administration / Supply Chain
  - Site / legal entity consolidation
- 4 Cash Focus**
  - De-leveraging
  - EBITDA growth, capex / NWC control
- 5 Portfolio Management**
  - Business portfolio
  - Product portfolio

... and already identified areas of opportunities to act on



# **1 Stronger Focus on Target Markets**

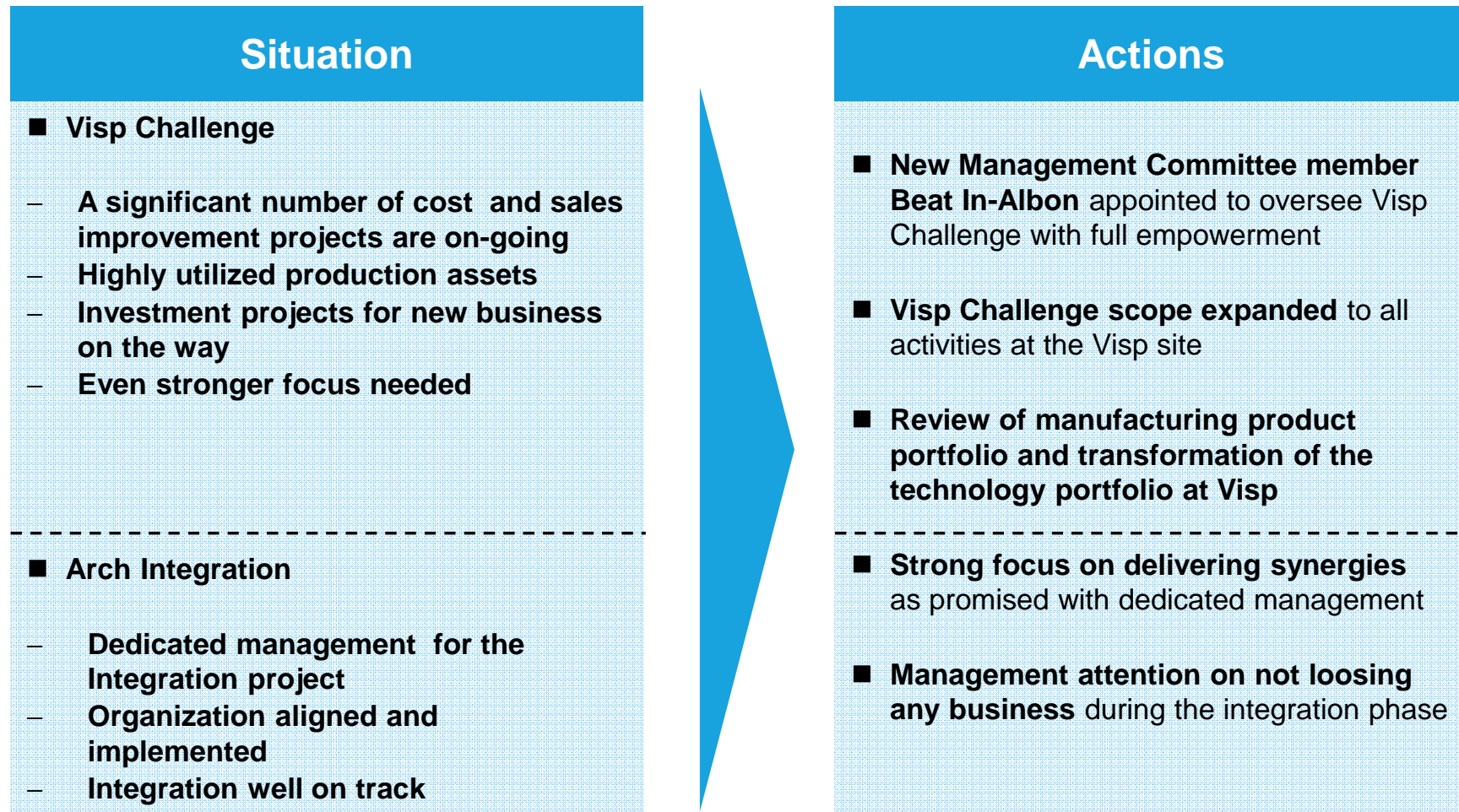
## **Situation**

- **Lonza has a market focus in the traditional target market pharma industry**
- **The company has strong science, technology and regulatory expertise because of the long-lasting activities in the pharma-market**
- **The existing know how can be used and lead to new business in other market segments**
- **The go-to-market approach needs to be adjusted**

## **Consequences**

- **Sharpened / enhanced customer and market focus will be the driving force going forward**
- **Stronger emphasis on B2B-marketing excellence and sales excellence**
- **Innovations need to be more market driven**
- **Penetration of new geographic markets where the major growth takes place**
- **Development of entry strategies for new markets**

## 2 Near Term Cost Reduction



**3**

## Longer Term Operational Improvements

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### Situation

- M&A – activities have been on top of the agenda of Lonza for the recent years.
- Measurable Operational Efficiency improvements needs to come into the focus now. Visp Challenge started the way for all other business units and sites, including corporate structure worldwide.

### Consequences

M&A is on low priority while improvement will start in the area of:

- The global manufacturing footprint
- Administrative efficiency
- The site and legal entity structure
- Increased asset productivity

**4**

## Cash Focus

### Situation

- On-going acquisitions and significant investments, especially in Asia, have led to a net debt/ EBITDA of 3.7 by the end of 2011

### Consequences

- Deleveraging is high on the agenda
- No equity increase needed for refinancing reasons
- Stronger focus on EBITDA – generation to increase permanently the incoming cash flow
- Capex Management and Working Capital Control get a stronger weight in the targets of the company
- Divestment of non-core assets (e.g. Performance Products)

**5**

## Portfolio Management

### Situation

- Latest with the integration of the former Arch businesses, Lonza is active in a broad variety of market segments.
- Within the market segments there is a need for actively managing the different levels of the product portfolio ranging from innovation to market standard products

### Consequences

- **Core segments will drive strategy and structure**
  - Profitable growth perspective through match between market potential and Lonza technologies and capabilities
  - Innovation driven segments
  - Profitable speciality character for products and services
  - Business Portfolio management remains ongoing task for Lonza Board and Management Committee

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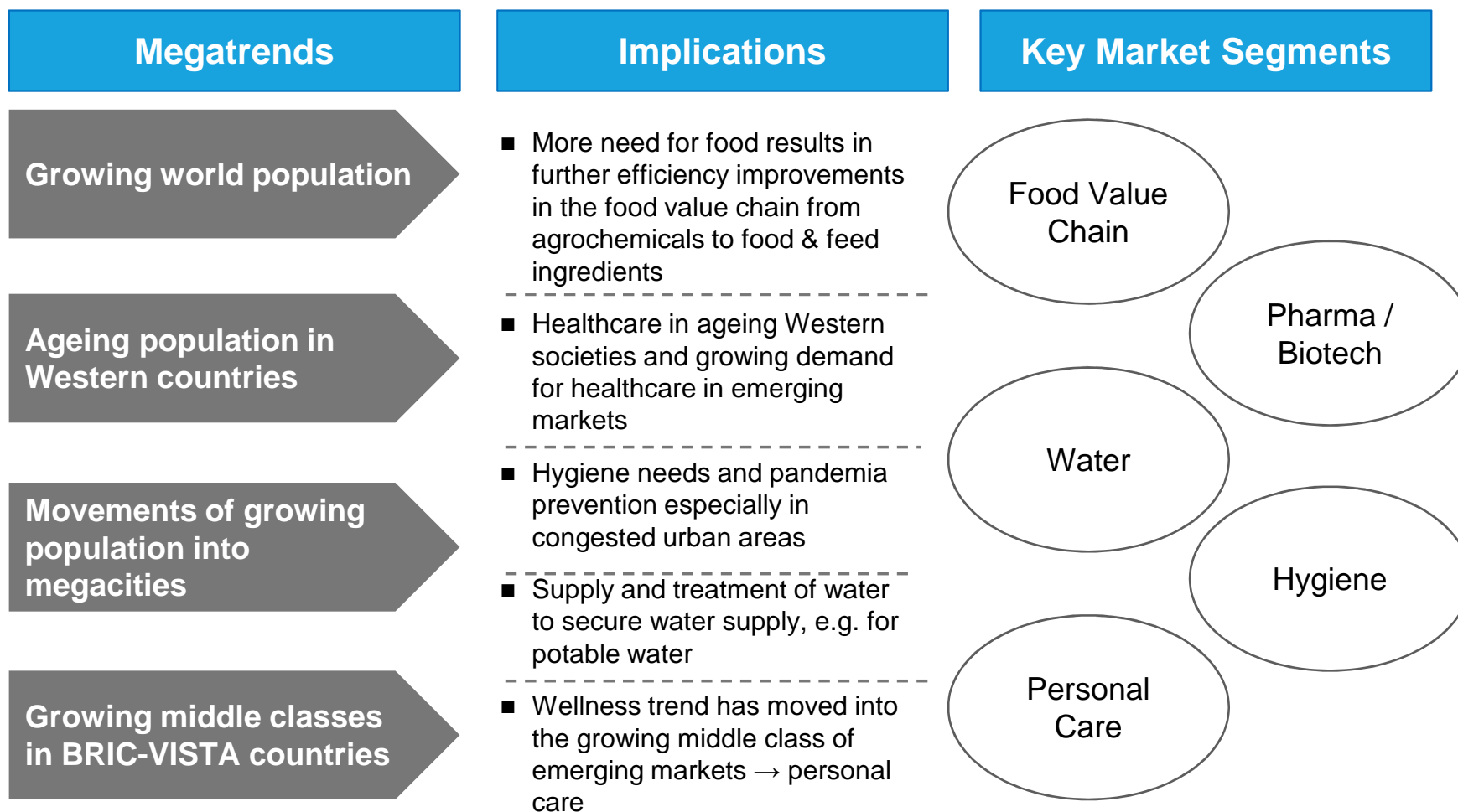


# Lonza Today



**Lonza is a high tech specialty business with multiple strong pillars**

# Multiple Global Megatrends Affecting Lonza's Businesses



# Lonza Is Able to Address Key Market Segments

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Key Market Segments	How Lonza Addresses These Segments
Pharma / Biotech	<ul style="list-style-type: none"><li>■ Lonza is a respected leader in offering services to those markets</li><li>■ Broadening the offer and penetrating new markets is on the agenda (e.g. Therapeutic Services)</li></ul>
Personal Care / Hygiene	<ul style="list-style-type: none"><li>■ Lonza gained critical mass through the Arch acquisition</li><li>■ Making use of the excellent Lonza tech platforms to grow</li></ul>
Food Value Chain	<ul style="list-style-type: none"><li>■ Agro business gained momentum based on Lonza – technologies</li><li>■ Staying competitive and broadening the offer to the food/feed markets</li></ul>
Water	<ul style="list-style-type: none"><li>■ The Water business unit covers already a variety of applications</li><li>■ Technology transfers to growing segments are on the way</li></ul>
Lonza is well positioned to harness megatrends and to serve resulting market needs	

# Rollout of Lonza's Technology Platforms

Key Technologies	Pharma / Biotech	Personal Care / Hygiene	Food Value Chain	Water
Fermentation	e.g.: Mammalian, microbial, development services, L-carnitine			
Fine Chemistry	e.g.: Synthesis, conjugates, peptides, HAPI, cytotoxics, microreactor, Niacin			
Preservation		e.g.: Antimicrobials		
Cell / Viral Therapy	e.g.: Therapeutics			
Testing	e.g.: Endotoxin, Moda, “paperless”			
Lonza is able to broaden offering to serve market needs based on strong existing technologies				

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## Guidance on Business Results Revisited

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### Situation

- Guidance historically given primarily on EBIT level
- Some guidance / commentary on other metrics on an intermittent basis

### Action

- **We will provide mid term - guidance on:**
  - Revenues
  - EBITDA
- **Rationale**
  - EBITDA guidance in line with industry practice and our cash focus

**Parameters for guidance to reflect industry standard and focus on cash generation**



# Financial Guidance

## 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
  - Visp Challenge
- 3 Longer Term Operational Improvements**
  - Manufacturing / Administration
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- 5 Portfolio Management**
  - Business portfolio
  - Product portfolio

### 2012:

Reiteration of given guidance:

- $\text{EBIT 2012} = \text{EBIT 2011} + 10\% - 15\%$

### 2015\*:

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

\* Based on current fx and business composition

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# Lonza Today



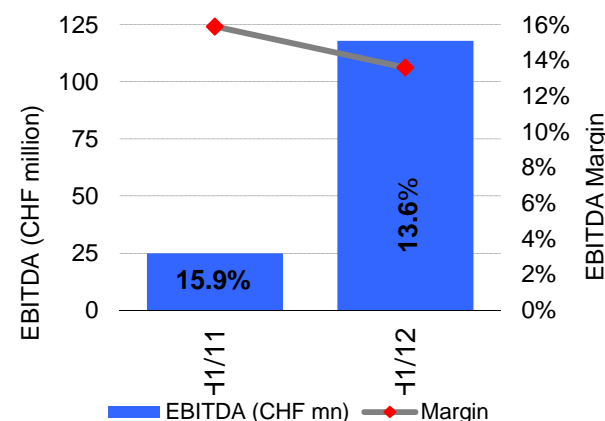
**Lonza is a high tech specialty business with multiple strong pillars**

## Microbial Control

### Key Figures

CHF million	1st half 2012	Change YoY *
Sales	865	451.0%
EBIT	87	383.3%
Margin	10.1%	
EBITDA	118	372.0%
Margin	13.6%	

### EBITDA and Margin Progression



- Performance above target despite weaker economies in EU and Asia
- Strong demand in Water Treatment especially from North America
- Solid growth in Hygiene and Material Protection businesses
- Successful development of a new business in Oil & Gas
- Integration on track and delivering synergy / cross-selling results

# Microbial Control

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- **Water Treatment**

- Recreational water had strong seasonal start in North America but a softer start in Europe due to the economy
- Industrial water sales on budget
- Rapidly increasing demand from shale oil + gas extractions. Dantogard® 2000 (biodegradable, environmentally responsible biocidal solution) launched and well accepted by the markets

- **Hygiene & Preservation**

- Strong sales in disinfectants and sanitizers
- Positive development in India and China in hospitals and pharma manufacturing due to enforcement of regulations

# Microbial Control

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- **Personal Care**

- Performance on target with strong sales in North America and Asia offsetting softer demand in Europe
- Solid biotechnology platform with certified organic products distinguishes us from competition

- **Wood Treatment**

- Slightly ahead of budget based on increased demand in North America
- In Europe, Australia / New Zealand business is on target

- **Material Protection**

- Sales in industrial application remained strong (building, automotive, polymers)
- Copper Omadine® got US EPA approval (June) for antifouling on vessels



## Update on Integration Efforts

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- Integration fully in line with original expectations
- Cost savings target of USD 50 mn for 2013 completely on track
  - 80% of cost saving measures initiated
- **Activities:**
  - Office consolidation widely completed (Norwalk end of July 2012)
  - HC reduction from corporate duplicity and attrition is 160
  - Current supply agreement consolidation on-going
  - Business process review (HR, Finance, IT, SAP, CRM) on track
- **Financials:**
  - Acquisition remains EPS accretive from year one at >CHF 0.40 and EVA positive from year two
  - Integration costs slightly below USD 80 mn
  - Additional revenues of USD 40 mn from year 3 reiterated

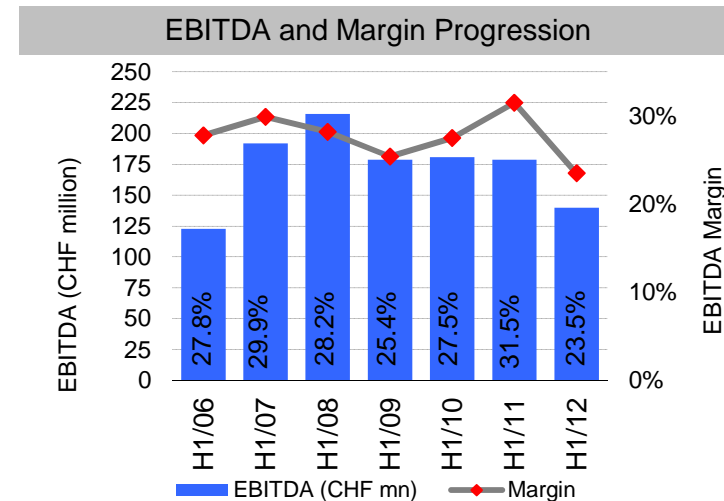
# Lonza Today



**Lonza is a high tech specialty business with multiple strong pillars**

# Custom Manufacturing

Key Figures		
CHF million	1st half 2012	Change YoY *
Sales	597	5.1%
EBIT	59	(39.8%)
Margin	9.9%	
EBITDA	140	(21.8%)
Margin	23.5%	



- Solid capacity utilization in Chemical and Biological Manufacturing
- Increased sales but continued margin pressure in Chemical Manufacturing
- Singapore in ramp-up phase
- Robust contract signing increases long-term capacity utilization
- New technology offerings see strong market demand
- Visibility continues to improve but volatility remains
- All expansion projects started up on time or are on track
- Investment in Formulated Products initiated

## Business Highlights (I)

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### Chemical Manufacturing

- Increased capacity utilization, supported by robust demand for all technologies
- Stable project pipeline supports mitigation of volatility; in H1 >200 RFPs received leading to a solid number of projects
- New technology capabilities attracted several customers (e.g. conjugates, HAPI, microreactor technology)
- FDA pre-approval inspection in Braine (BE) passed with no observations
- Good utilization of large scale peptide assets in 2013-15 with late phase and commercial products
- After 2011 FDA approval of Nansha (CN) large-scale multipurpose CGMP API, plant utilized for multiple customer projects
- HAPI labs in Visp (CH) with capabilities for cytotoxic substances operational
- Cytotoxic plant on track with 1<sup>st</sup> commercial project starting in July
- Build-out of conjugates plant in Visp is under review

## Business Highlights (II)

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### Biological Manufacturing

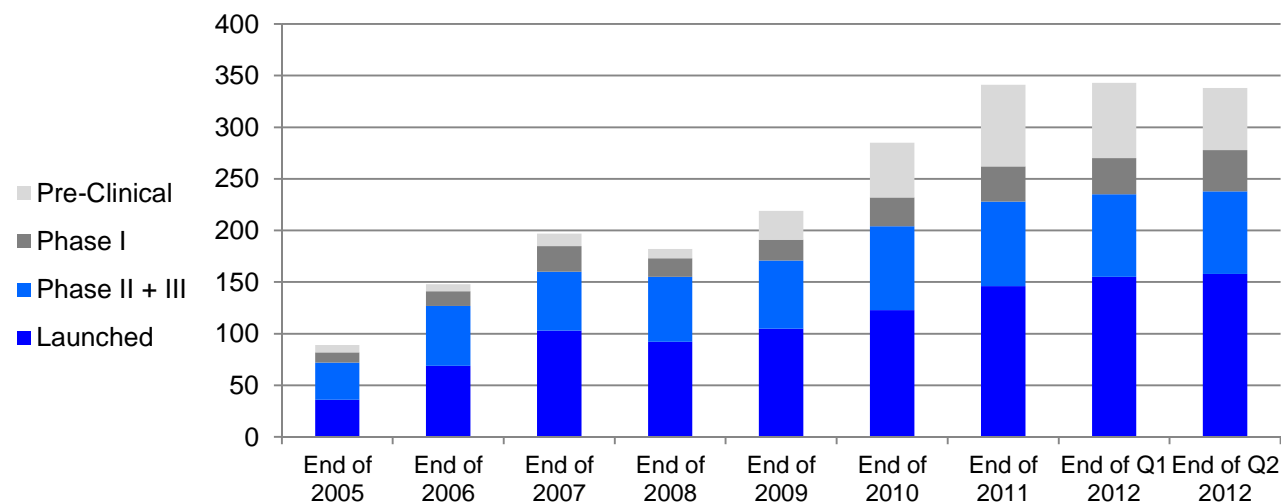
- Solid capacity utilization and new Singapore large-scale facility ramping up
- Strong pipeline to balance continuing approval volatility
- Hopkinton, MA (USA) is fully operational and manufactures multiple early phase and commercial products for various customers
- Full response to the FDA findings in Hopkinton submitted, awaiting response
- Expansion of the Slough (UK) facility is fully on track

### Development Services

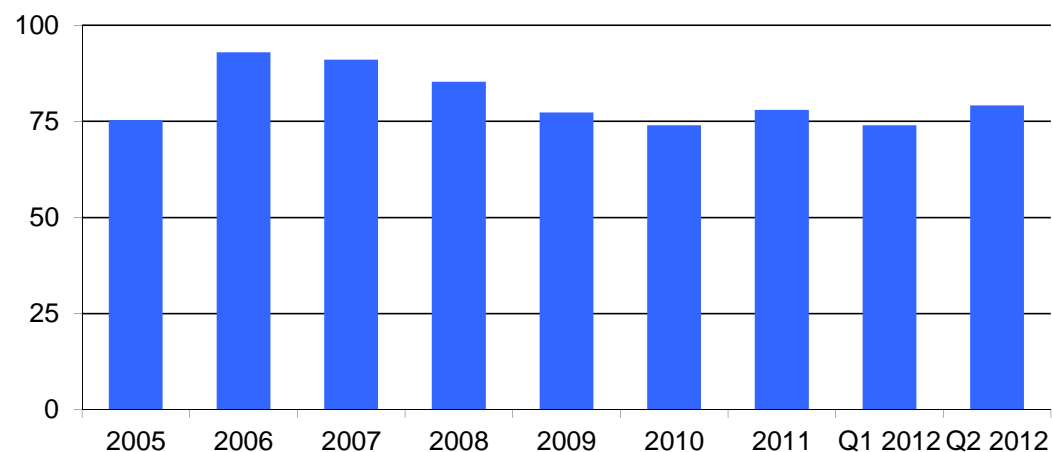
- Next generation Gene Expression System GS Xceed™ launched
- XS Microbial Expression Technology™ toolbox expanded
- AggreSolve™ technology experienced strong customer interest
- Launch of LightPath™: efficient and focused material supply service for early stage novel biologics development
- Expansions driven by increased customer demand are on track in Slough and Singapore

# Chemical Manufacturing – Pipeline and Utilization

## Project Pipeline (Number of Projects)



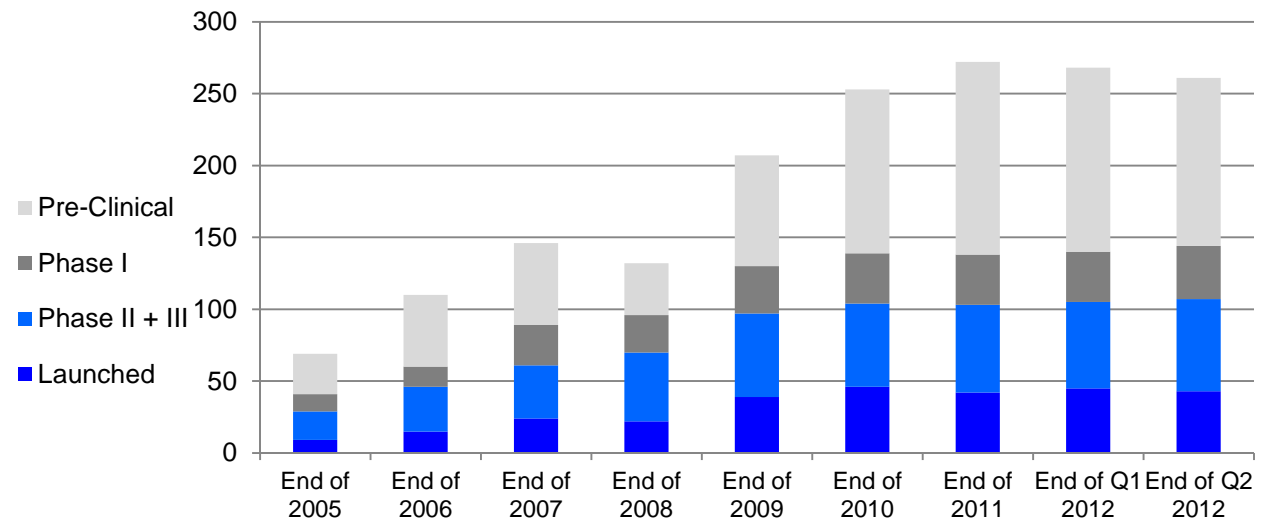
## Capacity Utilization (in %)



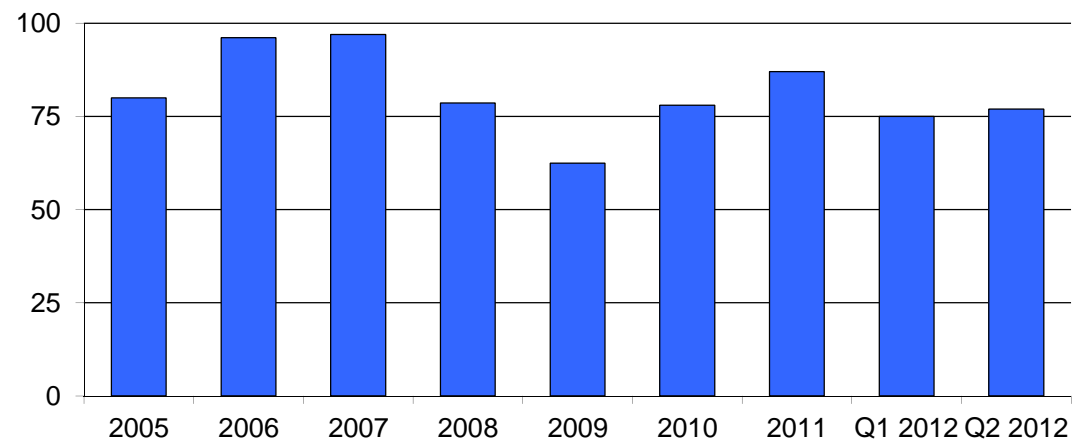


# Biological Manufacturing & Development Services: Pipeline and Utilization

## Project Pipeline (Number of Projects)



## Capacity Utilization\* (in %)



\* Including Singapore as of Q1 2012

# Lonza Today



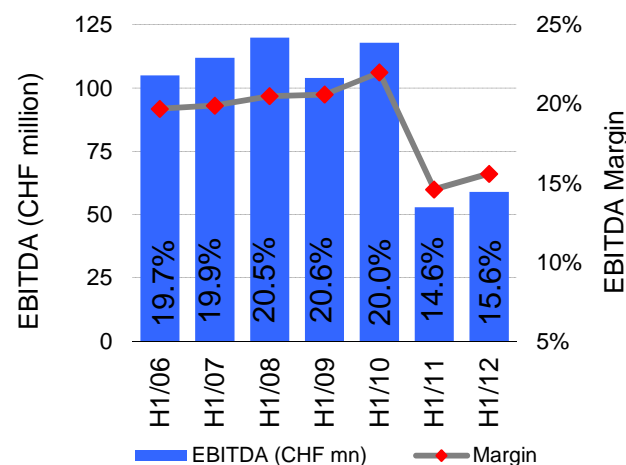
**Lonza is a high tech specialty business with multiple strong pillars**

# Financial Summary and Highlights

## Key Figures

CHF million	1st-half 2012	Change YoY *
Sales	379	4.7%
EBIT	25	8.7%
Margin	6.6%	
EBITDA	59	11.3%
Margin	15.6%	

## EBITDA and Margin Progression



- Robust market demand resulting in high capacity utilization
- Niacin margins remain under pressure due to competition
- Market demand for agrochemicals increased substantially
- Visp Challenge will contribute positively to productivity improvements
- Growth projects under full execution

# Life Science Ingredients

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## Nutrition Ingredients

- Nicotinates (vitamin B3) experienced a overall stable demand in EU & US and a strong demand from emerging markets. Margins remained under pressure due to aggressive competition.
- Carnitine: volumes increased driven by growth in the supplements, beverage and pet food markets. Sales activities in new regions delivered first promising results. Several audits of the new Nansha (CN) successfully completed. Customers are satisfied with the quality.
- Meta™ (metalddehyde): Sales picked up in Q2 based on favourable weather conditions. Plant for formulated products in Visp (CH) started on time.

## Performance Intermediates

- Increasing demand for agrochemical intermediates driven by growing population; good visibility until 2013
- New pyromellitic dianhydride (PMDA) production in Nanjing (CN) qualified and ramping up. Liyang (CN) plant now closed
- Strong demand for High Performance Intermediates from electronics, aerospace and construction industry

## Lonza Today



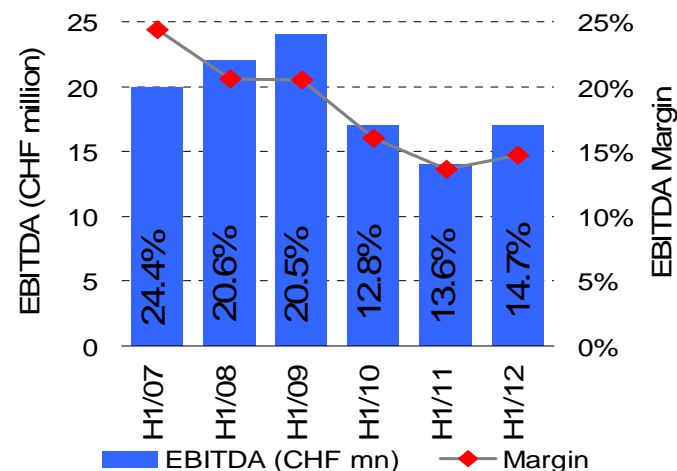
**Lonza is a high tech specialty business with multiple strong pillars**

# Financial Summary and Highlights

## Key Figures

CHF mn	1st half 2012	Change YoY*
Sales	116	12.6%
EBIT	8	14.3%
Margin	6.9%	
EBITDA	17	21.4%
Margin	14.7%	

## EBITDA and Margin Progression



- Major growth coming from Therapeutic Services and Asian markets
- Margins improved compared with H1 2011 due to increased asset utilization and organizational optimizations
- Operations in Singapore, Walkersville, MD (USA) and Houston, TX (USA) started up as scheduled
- Research solutions remained impacted by low governmental spending

# Bioscience

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## Research Solutions

- Increased sales in Asia and solid demand in the USA compensated lower sales in Europe
- Strong growth observed in the Media/Sera and Cell Biology business
- Molecular Biology at target despite challenging market environment

## Testing Solutions

- Transfection instruments below target due to capital intensity /constrained budgets
- Endotoxin testing devices slowed down in Europe and because of reduced Asian growth
- MicroCompass™ launch delayed till 2013 due to instrument supply issues:
  - Lonza still has not received satisfactory hardware from Becton Dickinson and Company
  - Collaboration with Becton Dickinson under review

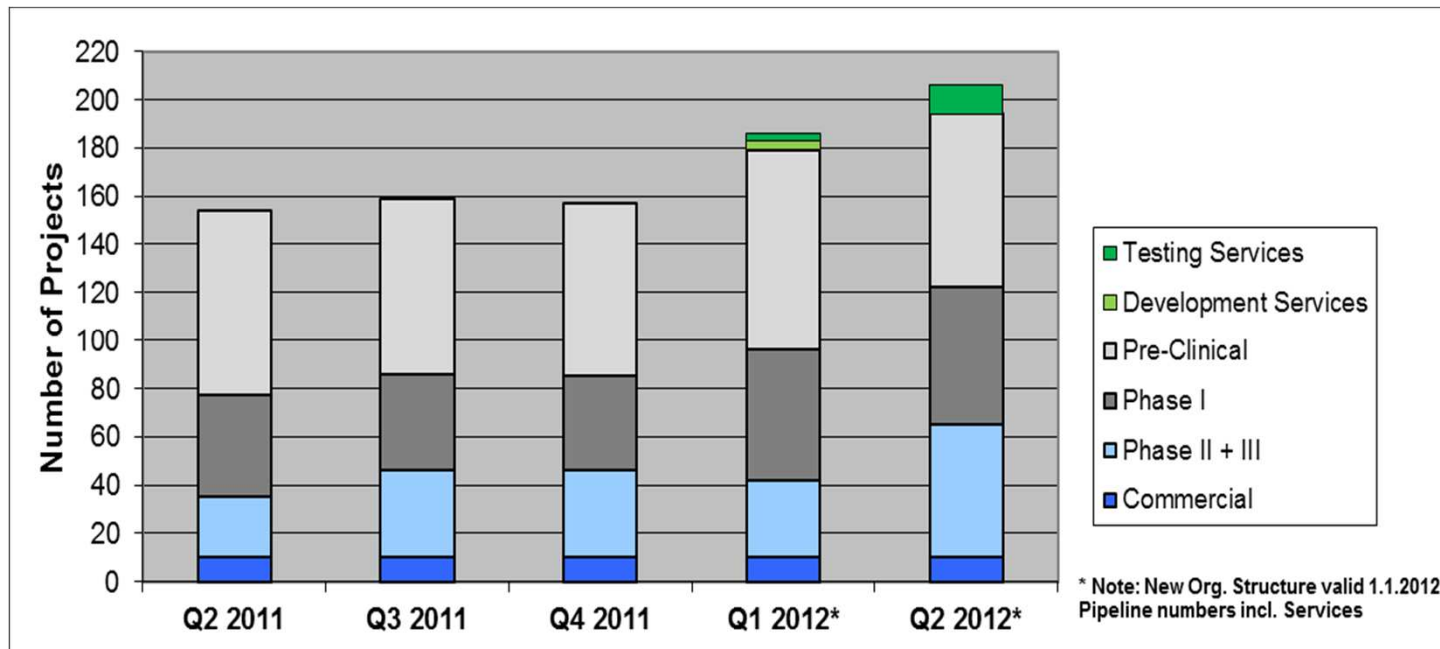
## Therapeutic Services

- Increased demand for cell and viral therapy especially in Asia and USA and substantial collaborations (e.g. Avalance) signed
- Viral Therapy experienced a significant project increase
- Process Development Services saw excellent market demand

# Bioscience Project Pipeline

## New Products and Therapeutic Clients

### LBS Therapeutic Clients & Services





## Summary

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- Substantial revenues and EBIT increase driven by Microbial Control
- Strong operating free cash flow
- Overall strategy remains valid
- Underlying business growth for 2012 on track
  - New contracts signed
  - Increased capacity utilization
  - New technologies and development services performing well
  - Solid demand in all markets
- Microbial Control integration fully on track
  - Cost savings of USD 50 mn for 2013 on track
  - Revenue increase through cross selling of USD 40 mn confirmed

## Outlook

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- On track to deliver continued underlying revenue and EBIT growth
- Debt reduction on-going
- Operational optimization projects on-going
- Review of group-wide structure and of set-up of business models

## Calendar of Events and Contacts

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### ■ Important Lonza Group dates

- 25 July 2012 Half year 2012 results
- 01 Nov 2012 Third quarter 2012 business update
- 24 Jan 2013 Full year 2012 results

### ■ Contacts

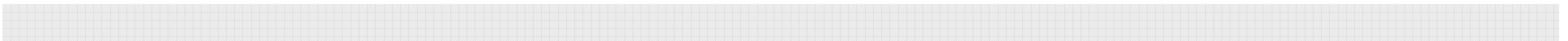
Dominik Werner  
Corporate Communications  
T +41 61 316 8798  
F +41 61 316 9798  
dominik.werner@lonza.com

Dirk Oehlers  
Investor Relations  
T +41 61 316 8540  
F +41 61 316 9540  
dirk.oehlers@lonza.com

**Lonza**

**Back-up**

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## 2012 Half Year Results – Key Financial Figures

CHF mn	1st half 2011	1st half 2012	Change YoY *
Sales	1 193	1'964	64.6
EBITDA	265	327	23.4
<i>EBITDA margin</i>	22.2%	16.6%	
EBIT	136	168	23.5
<i>EBIT margin</i>	11.4%	8.6%	
Financing costs	(19)	(46)	142.1
<i>Tax rate</i>	14.0%	19.0%	
Profit for the period	97	94	(3.1)
EPS (CHF) basic	1.90	1.82	(4.2)
EPS (CHF) basic CORE	2.09	2.42	15.8
Cash flow before change in net working capital	213	260	22.1
Change in net working capital	84	(95)	
Free cash flow	66	289	337.9
Capital expenditures	117	141	20.5
RONOA	8.4	7.4	
Net debt	1 249	2'531	102.6
Debt - equity ratio	0.58	1.08	
Number of employees	8 306	11 084	33.4