

Corporate



## Scientific and High-tech Solutions for Specialty Markets

Business Update: Third Quarter 2012

31 Oct 2012

Richard Ridinger - CEO

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# Lonza

## Forward-looking

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# Agenda

**I. Q3 2012 Business Update**

II. Sustainable Cost Reduction

III. Summary & Outlook

## Third Quarter 2012 Milestones

- Overall business performance on a satisfactory level despite difficult macro-economic challenges
- All sectors see good demand, satisfying capacity utilizations and good order-books
- Increasing market demand for new technologies (ADC, cytotoxics)
- “Focus and Deliver” strategy remains key driver for the business
- Successful long-term re-financing of bridge loans secured with very favorable conditions
- Guidance for EBIT 2012: EBIT 2011 plus 10-15% confirmed

# Third Quarter 2012 Cost Improvement Measures

- Visp Challenge will deliver the announced productivity improvement of CHF 100 mn by 2015 resulting in a reduction of 400 positions
  - Site in 2012 with good capacity utilization however with unsatisfactory profitability
  - Competitive portfolio and cost structure are fundamental requirements to remain attractive for new products, investments and technologies
- Additionally a worldwide review of Corporate Functions will lead to a reduction of 100 positions
- The majority of the total reduction of the 500 positions are realized by internal transfers, natural attrition, early retirements and a discontinuation of temporary contracts

# Lonza Today

## Lonza

1 Microbial Control	2 Custom Manufacturing	3 Life Science Ingredients	4 Bioscience
<p>Hygiene &amp; Preservation</p> <p>Water Treatment</p> <p>Material Protection</p> <p>Personal Care</p> <p>Wood Treatment</p>	<p>Biological Manufacturing</p> <p>Chemical Manufacturing</p> <p>Development Services</p>	<p>Nutrition Ingredients</p> <p>Performance Intermediates</p>	<p>Therapeutic Services</p> <p>Research + Testing Solutions</p>
<p><b>H2 2011 + H1 2012</b> *1</p> <p>Sales: CHF 1.569 mn</p> <p>EBITDA: CHF 129 mn</p> <p>EBIT: CHF 71 mn</p>	<p><b>H2 2011 + H1 2012</b></p> <p>Sales: CHF 1.326 mn</p> <p>EBITDA: CHF 354 mn</p> <p>EBIT: CHF 189 mn</p>	<p><b>H2 2011 + H1 2012</b></p> <p>Sales: CHF 714 mn</p> <p>EBITDA: CHF 110 mn</p> <p>EBIT: CHF 42 mn</p>	<p><b>H2 2011 + H1 2012</b></p> <p>Sales: CHF 215 mn</p> <p>EBITDA: CHF 31 mn</p> <p>EBIT: CHF 14 mn</p>

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

\*1: pro-forma

# Microbial Control (I)

## ■ Overall

- Softer demand in North America and Europe in Q3 due to macroeconomic uncertainties, partially offset by new applications and approvals
- Integration and synergy delivery on track

## ■ Water Treatment

- Upsides from favorable weather conditions were offset by a weak economy, with the Recreational Water business coming in on plan
- New products in the Oil & Gas business made substantial progress
- Municipal water projects are progressing

## ■ Personal Care

- Anti-dandruff business on target levels
- Specialty Ingredients business is slightly behind forecast
- Strong Q3 performance of Preservatives business

## Microbial Control (II)

### ■ **Hygiene & Preservation**

- The H&P business has grown but slower than expected, mainly due to the economic down-turn in Europe and North America
- New business for hygiene application helped offset the economic decline

### ■ **Wood Protection**

- Good Q3 performance in Wood Protection; stronger residential and industrial markets in North America balance softer demand in Europe and Latin America
- CCA (Chromium Copper Arsenic) volumes above target in South Africa due to creosote shortage for High Pressure Industrial applications (railroad ties, utilities poles)

### ■ **Material Protection**

- Weak sales in the Marine Anti-fouling business due to a slow down in the ship building industry and strong competition in the Asian markets



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# Business Highlights (I)

## Overall

- Steady demand resulting in capacity utilization as expected in both chemical and biological plants
- Solid outsourcing trend resulting in newly signed contracts
- Batch-release pattern remains geared toward year-end

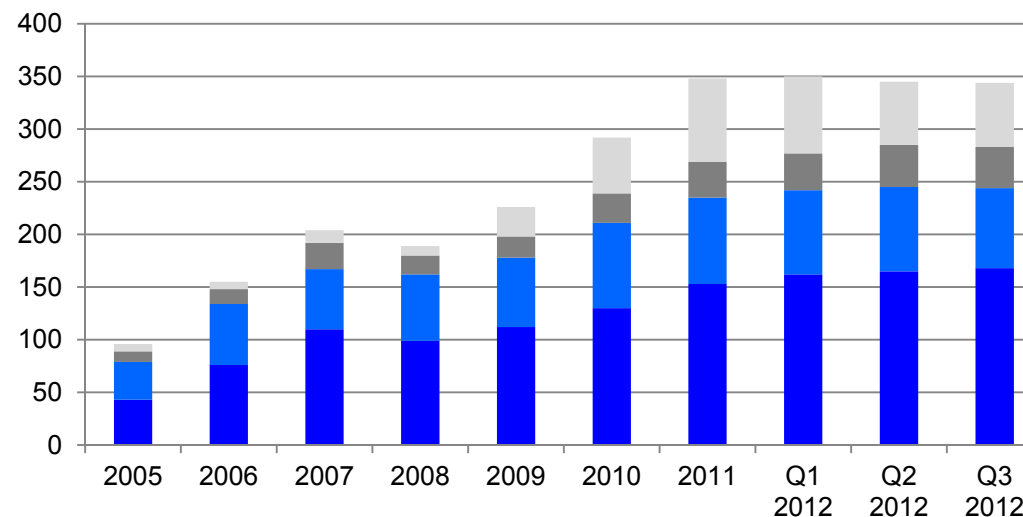
## Chemical Manufacturing

- Successful FDA inspection of Visp site and Pre-approval Inspection (PAI) for a major conjugates product
- Increased customer engagement with new products launched to market. Four market launches in 2012
- Large-scale peptide manufacturing volumes secured for 2013
- Growing pipeline and volumes in conjugates increase asset utilization
- Continued strong demand for HAPI products
- New cytotoxic API facility operational with 1<sup>st</sup> commercial product in validation

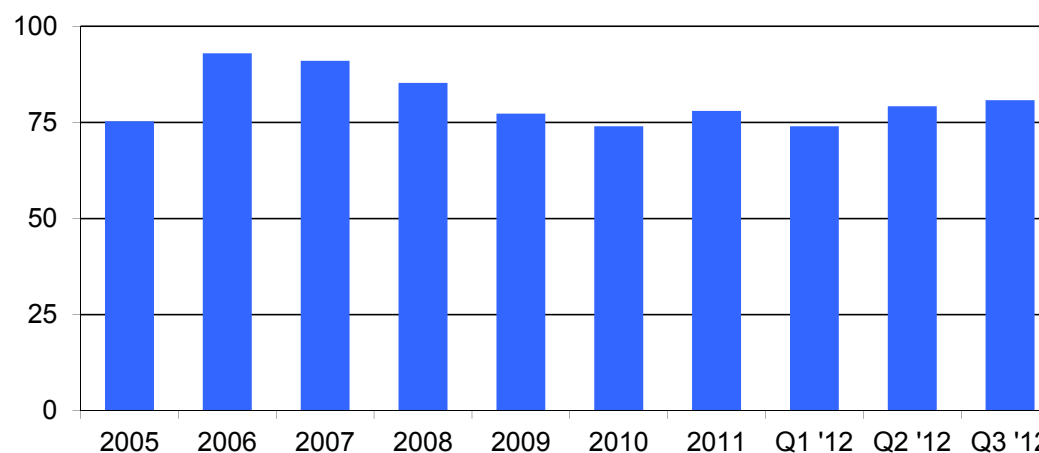
# Chemical Manufacturing – Pipeline and Utilization

**Project Pipeline**  
(Number of Projects)

- Pre-Clinical
- Phase I
- Phase II + III
- Launched



**Capacity Utilization**  
(in %)



## Business Highlights (II)

### Biological Manufacturing

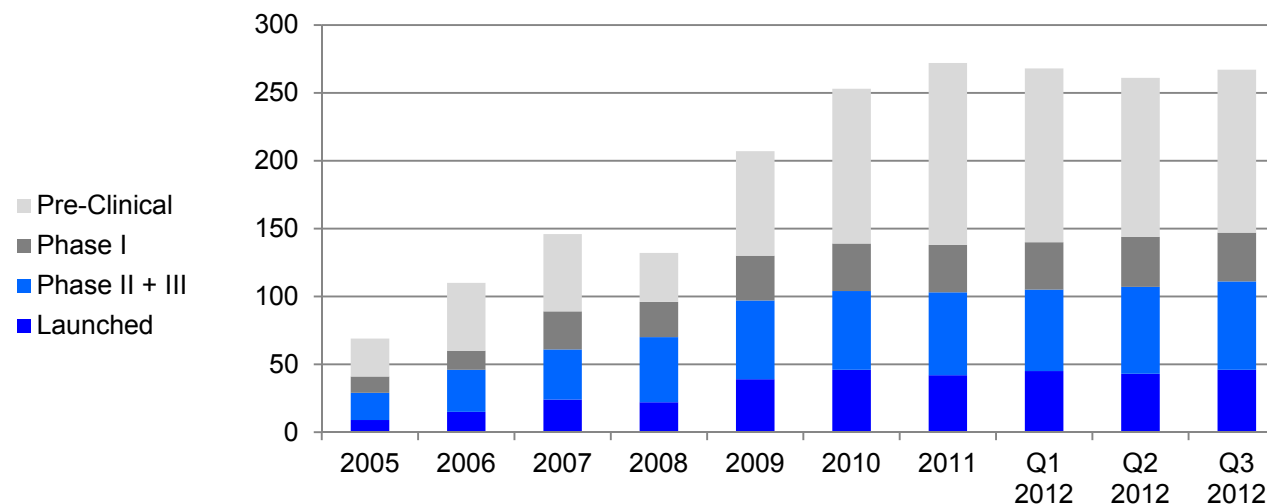
- Two long-term commercial-scale contracts for launched products won
  - Kouřim; CZ signed a large commercial product manufacturing agreement with a big pharma customer
- Capacity ramp-up in Singapore slower than expected
- Successful FDA and EMA inspections
  - Singapore successfully completed first Pre-approval Inspections (PAIs) from the EMA and the FDA
  - Visp successfully completed an FDA site inspection focused on large- and small-scale biologics manufacturing

### Development Services

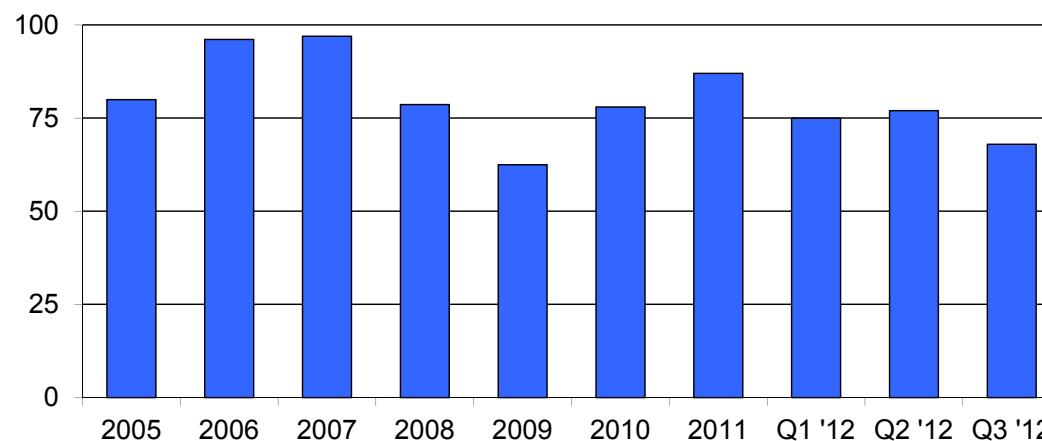
- XS Microbial™ Toolbox – expanded offering, building early phase pipeline and increased license uptake
- GS Xceed™ (next generation GS System™) experienced increased worldwide interest

# Biological Manufacturing & Development Services – Pipeline and Utilization

**Project Pipeline**  
(Number of Projects)



**Capacity Utilization**  
(in %)



\* including Singapore as of Q1 2012

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# Life Science Ingredients

## Nutrition Ingredients

- Nicotinates (vitamin B3) for feed applications had weaker Q3 demand due to livestock reduction in North America (drought) and record high grain prices
  - Food and pharmaceutical applications saw stable demand
  - Nicotinate prices remained depressed due to competition
- Carnipure™ (food, pharma) and Carniking™ (feed) had strong demand with stable prices
- Meta™ (metaldehyde) saw comparable demand as in previous years

## Performance Intermediates

- Agro: solid demand mainly driven by agro-chemicals actives and intermediates
  - Debottlenecking activities started to cope with increasing demand
  - New investment in Visp approved
- High performance intermediates performed as planned with slightly weaker demand from the electronics industry

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# Bioscience

## Summary

- Sales on target due to good Cell Therapy development and solid Research & Testing business

## Research & Testing Solutions

- Overall sales on target, increased sales in Asia compensate for weaker EU sales
- Endotoxin sales in EU softer (destocking & less pharma sites)
- Nucleofector™ kits sales slightly above expectation, but instrument sales in EU & US slower than expected

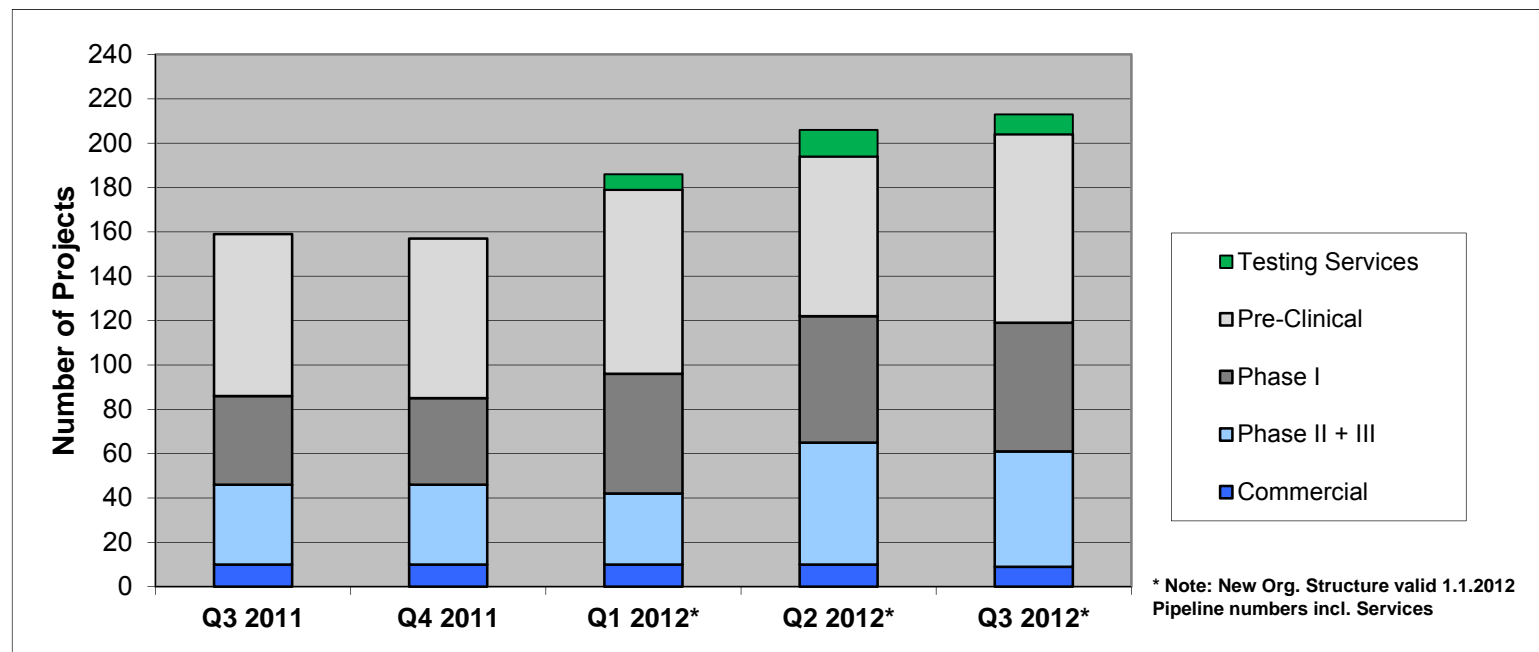
## Therapeutic solutions

- Strong development of Cell/Viral Therapy sales
- Growing Therapeutic Media business
- Singapore Cell Therapy assets qualified and preparing for Ministry inspection in Q4
- Lonza received two significant grants from National Institutes of Health (NIH) related to production of iPS cells

# Bioscience Project Pipeline

## New Products and Therapeutic Clients

### LBS Therapeutic Clients & Services



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# Update on Arch Integration Efforts

- Integration fully in line with original expectations
- Cost savings target of USD 50 mn for 2013 completely on track
  - 90% of cost saving measures initiated
- Increased sales of at least USD 40 mn by year three on track
  - Initial screening of combined portfolio has been completed

## Activities

- Footprint consolidation widely completed - 7 offices and 4 warehouses closed, site in Newcastle (Delaware, US) sold
- Supply agreement and legal entity consolidation on-going
- Business process review on track, focusing now on SAP-implementation

## 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

# VispChallenge – Problem Analysis

- Visp is largest of Lonza's sites in terms of employees and sales
- Site in 2012 with good capacity utilization however with unsatisfactory profitability

Low profitability caused by:

- Competitive pressure
- Exchange rates
- Suboptimal product portfolio
- Site complexity (business processes, organization)
- Changing industrial environment (regulations, consolidation, etc.)
- Oil price and energy costs



Need for action:

Competitive portfolio and cost structure are fundamental requirements to remain attractive for new products, investments and technologies

## VispChallenge – Goals

- Long-term competitive and profitable site with attractive working places
- Increase profitability (CHF 100 mn productivity improvement)
- Focus all activities on value creation
- Review and adapt portfolio



Make Visp fit for the next generation

# VispChallenge – Measures

Reduce complexity, improve cost structure and flexibility:

- Streamline Visp site service and manufacturing organization and offering
- Simplification of cost center structure and cost allocation
- Simplify processes in supply chain, maintenance, quality assurance, etc.

Increase focus..... (examples):

- Reduce external non-core activities (e.g. engineering activities)
- Focus on value add projects

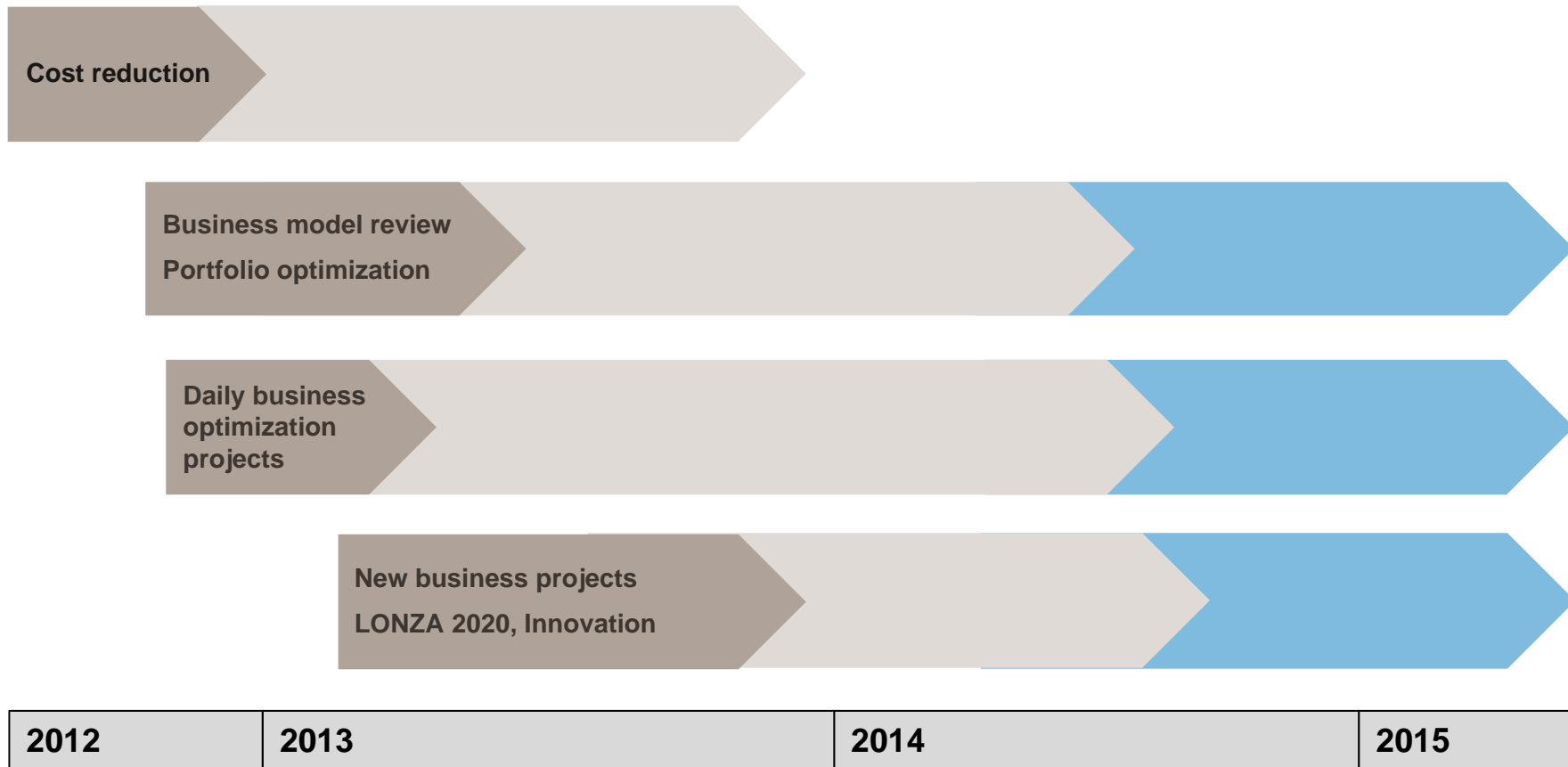
Review business models:

- E.g. market and customer focused CMO and CDO approach

Optimize portfolio (examples):

- Verbund flexibilization, basic chemicals portfolio optimization
- Asset utilization of multi purpose plants
  - Agro
  - Small Molecules

# VispChallenge – Timeline



<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
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Determine Actions
  Implementation
  Continuation



## VispChallenge – Personnel Impact

- Measures will lead to a reduction in workforce of 400 positions in Visp within 24 months
- Ease of personnel impact through:
  - Internal transfers to open positions and new business
  - Natural attrition
  - Discontinuation of temporary contracts
  - Early retirements
  - Restructuring layoffs in line with the dismissal protection due to the lengthening of working hours (end 2012 for EAV and end February for KAV)
- Social plan prepared, consultation with unions over the next weeks, results expected in November

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# Key Opportunities

## Key Opportunities for Lonza

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

### 2012:

Reiteration of given guidance:

- $EBIT\ 2012 = EBIT\ 2011 + 10\% - 15\%$

### 2015\*:

- Mid single-digit annual sales growth
- EBITDA margin: 20%

\* Based on current fx and business composition

# Summary & Outlook

## Summary

- Underlying business growth for 2012 on track
  - New contracts signed
  - Satisfying capacity utilization
  - New technologies and development services performing well
- Microbial Control integration fully on track
- VispChallenge on track to deliver productivity improvement of CHF 100 million by 2015

## Outlook

- On track to deliver full year guidance
- Debt reduction on-going
- Review of group-wide structure and of set-up of business models
- Following this productivity improvement program in Visp, Lonza will review its global manufacturing footprint and introduce similar improvement programs to other sites globally

# Calendar of Events and Contacts

## Important Lonza Group Dates

- 24 Jan 2013 Full year 2012 results
- 09 Apr 2013 Annual General Meeting
- 25 Apr 2013 First quarter 2013 business update
- 25 July 2013 Half-year 2013 results
- 31 Oct 2013 Third quarter 2013 business update

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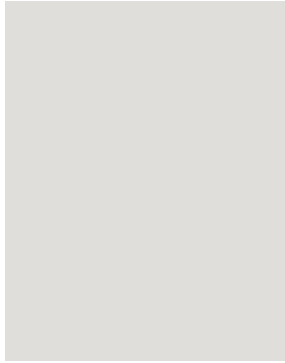
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