

Alternative Performance Measures

Full-Year 2023



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.

| 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 | ○ | ● |
| Net 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),
- Acquisitions and divestitures related income and expenses,
- Impairments and reversals of related impairments (excluding impairments following contract termination, that are compensated by termination-related revenues),
- 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 2023 and 2022 is as follows:

| Million CHF | 2023 | 2022 |
|---|------------------|--------------------|
| IFRS Profit | 655 | 1'218 |
| CORE adjustments | | |
| Environmental remediation expenses | 15 | 27 |
| (Income) / expense resulting from acquisitions and divestitures | (6) | (202) ² |
| Litigations | 0 | 31 ³ |
| Impairment | 254 ⁴ | 0 |
| Restructuring costs | 50 ⁵ | 0 |
| Tax effect ⁶ | (54) | 23 |
| CORE Profit | 914 | 1'097 |
| CORE Profit attributable to equity holders of the parent | 913 | 1'094 |
| CORE Earnings per share attributable to equity holders of the parent | 12.40 | 14.74 |

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 Gains related to the divestiture of several businesses in Bioscience and Small Molecules

³ Litigation related to a Lonza legacy site / business

⁴ Total impairment costs of CHF 439 million (see Full-Year Report 2023, note 5), include impairments of CHF 185 million that are compensated by termination-related revenues or do not exceed the threshold CHF 20 million for core adjustments. Therefore, these impairment costs of CHF 185 million are not adjusted for Core Profit measurement

⁵ See Full-Year Report 2023 note 5

⁶ Group tax rate of 17.1% for 2023 and 15.9% for 2022

Earnings before interest, tax, depreciation and amortization (EBITDA)

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

| Million CHF | 2023 | 2022 |
|---|------------------|--------------|
| Result from operating activities (EBIT) | 880 | 1'541 |
| Depreciation of property, plant and equipment | 449 | 409 |
| Amortization of intangible assets | 172 | 187 |
| Impairment and reversal of impairment on property, plant, equipment and intangibles | 439 ¹ | 2 |
| Earnings before interest, taxes and depreciation (EBITDA) | 1'940 | 2'139 |

| Million CHF | 2023 | 2022 |
|--|-----------------|--------------------|
| Earnings before interest, taxes and depreciation (EBITDA) | 1'940 | 2'139 |
| Environmental remediation expenses | 15 | 27 |
| (Income) / expense resulting from acquisitions and divestitures | (6) | (202) ² |
| Litigations | 0 | 31 ³ |
| Restructuring costs | 50 ¹ | 0 |
| CORE EBITDA | 1'999 | 1'995 |

¹ See Full-Year Report 2023 note 5

² Gains related to the divestiture of several businesses in Bioscience and Small Molecules

³ 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 | | | |
|--|--------------|--------------|-------------|
| Million CHF | 2023 | 2022 | Change in % |
| Sales | 6'717 | 6'223 | 7.9 |
| Elimination of effects from hedging instruments ¹ | (65) | 9 | |
| Sales excluding hedging effects | 6'652 | 6'232 | |
| Retranslation at prior year rates | 261 | | |
| Sales in constant currency | 6'913 | | 10.9 |
| CORE EBITDA | 1'999 | 1'995 | 0.2 |
| Elimination of effects from hedging instruments ¹ | (12) | 3 | |
| CORE EBITDA excluding hedging effects | 1'987 | 1'998 | |
| Retranslation at prior year rates | 40 | | |
| CORE EBITDA in constant currency | 2'027 | | 1.5 |
| Margin in % | 29.3 | | |

¹ The hedging program is managed centrally by Corporate Treasury and therefore reported as part of Corporate

| Biologics | | | |
|---|--------------|--------------|-------------|
| Million CHF | 2023 | 2022 | Change in % |
| Sales | 3'719 | 3'274 | 13.6 |
| Retranslation at prior year rates | 131 | | |
| Sales in constant currency | 3'850 | | 17.6 |
| CORE EBITDA | 1'294 | 1'228 | 5.4 |
| Retranslation at prior year rates | 28 | | |
| CORE EBITDA in constant currency | 1'322 | | 7.7 |
| Margin in % | 34.3 | | |

| Small Molecules | | | |
|---|------------|------------|-------------|
| Million CHF | 2023 | 2022 | Change in % |
| Sales | 901 | 819 | 10.0 |
| Retranslation at prior year rates | 10 | | |
| Sales in constant currency | 911 | | 11.2 |
| CORE EBITDA | 283 | 248 | 14.1 |
| Retranslation at prior year rates | (13) | | |
| CORE EBITDA in constant currency | 270 | | 8.9 |
| Margin in % | 29.6 | | |

Cell & Gene

| Million CHF | 2023 | 2022 | Change in % |
|---|------------|------------|---------------|
| Sales | 696 | 693 | 0.4 |
| Retranslation at prior year rates | 43 | | |
| Sales in constant currency | 739 | | 6.6 |
| CORE EBITDA | 64 | 116 | (44.8) |
| Retranslation at prior year rates | 5 | | |
| CORE EBITDA in constant currency | 69 | | (40.5) |
| Margin in % | 9.3 | | |

Capsules and Health Ingredients

| Million CHF | 2023 | 2022 | Change in % |
|---|--------------|--------------|---------------|
| Sales | 1'161 | 1'266 | (8.3) |
| Retranslation at prior year rates | 74 | | |
| Sales in constant currency | 1'235 | | (2.4) |
| CORE EBITDA | 327 | 418 | (21.8) |
| Retranslation at prior year rates | 32 | | |
| CORE EBITDA in constant currency | 359 | | (14.1) |
| Margin in % | 29.1 | | |

Corporate

| Million CHF | 2023 | 2022 |
|--|------------|-------------|
| Sales | 240 | 171 |
| Elimination of effects from hedging instruments ¹ | (65) | 9 |
| Sales excluding hedging effects | 175 | 180 |
| Retranslation at prior year rates | 3 | |
| Sales in constant currency | 178 | |
| CORE EBITDA | 31 | (15) |
| Elimination of effects from hedging instruments ¹ | (12) | 3 |
| CORE EBITDA excluding hedging effects | 19 | (12) |
| Retranslation at prior year rates | (12) | |
| CORE EBITDA in constant currency | 7 | |

¹ The hedging program is managed centrally by Corporate Treasury and therefore reported as part of Corporate

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 2023 | 31 December 2022 | Change |
|---|---------------------|---------------------|--------------|
| Non-current debt | 2'610 | 1'554 | 1'056 |
| Current debt | 191 | 678 | (487) |
| Total debt | 2'801 | 2'232 | 569 |
| Non-current loans and advances | (198) | (194) | (4) |
| Current loans and advances | (13) | 0 | (13) |
| Short-term investments | (200) | (885) | 685 |
| Cash and cash equivalents | (1'468) | (1'339) | (129) |
| Total cash & cash equivalents, short term investments and loans and advances | (1'879) | (2'418) | 539 |
| Net debt / (net cash) | 922 | (186) | 1'108 |
| | 31 December 2023 | 31 December 2022 | |
| Net debt / CORE EBITDA ratio | 0.5 | (0.1) | |
| Net Debt / Equity ratio | 0.1 | (0.0) | |

Return On Invested Capital (ROIC)

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 | 2023 | 2022 |
|---|------------------|--------------------|
| Result from operating activities (EBIT) | 880 | 1'541 |
| Share of result of associates / joint ventures | (13) | 2 |
| CORE adjustments | | |
| Environmental remediation expenses | 15 | 27 |
| Income resulting from acquisitions and divestitures | (6) | (202) ¹ |
| Litigations | 0 | 31 ² |
| Impairments | 254 ³ | 0 |
| Restructuring costs | 50 ⁴ | 0 |
| Net operating profit before taxes | 1'180 | 1'399 |
| Taxes ⁵ | (202) | (222) |
| Net operating profit after taxes (NOPAT) | 978 | 1'177 |
| Average invested capital | 11'243 | 10'326 |
| ROIC in % | 8.7 | 11.4 |

- 1 Gains related to the divestiture of several businesses in Bioscience and Small Molecules
- 2 Litigation related to a Lonza legacy site / business
- 3 Total impairment costs of CHF 439 million (see Full-Year Report 2023, note 5), include impairments of CHF 185 million that are compensated by termination-related revenues or do not exceed the threshold CHF 20 million for core adjustments. Therefore, these impairment costs of CHF 185 million are not adjusted for NOPAT measurement
- 4 See Full-Year Report 2023 note 5
- 5 Group tax rate of 17.1% for 2023 and 15.9% for 2022

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

| Million CHF | 2023 | 2022 |
|--|---------------|---------------|
| Intangible assets | 2'151 | 2'368 |
| Property, plant & equipment | 6'543 | 5'389 |
| Goodwill | 2'858 | 2'928 |
| Inventories | 1'896 | 1'816 |
| Trade receivables | 1'046 | 971 |
| Other operating receivables | 337 | 297 |
| Other assets | 233 | 207 |
| Trade payables | (432) | (439) |
| Other operating liabilities | (2'782) | (2'676) |
| Net current and deferred tax liabilities | (607) | (535) |
| Average invested capital | 11'243 | 10'326 |

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.

| Million CHF | 2023 | 2022 | Change |
|--|-------------------|--------------------|--------------|
| Earnings before interest, taxes and depreciation (EBITDA) | 1'940 | 2'138 | (198) |
| Change in operating net working capital ¹ | (310) | (653) | 343 |
| Capital expenditures in tangible and intangible assets | (1'682) | (1'872) | 190 |
| Disposal of tangible and intangible assets | 16 | 13 | 3 |
| Change of other assets and liabilities | 365 | 108 | 257 |
| Gain from sales of assets held for sale and subsidiaries | 0 | (199) ² | 199 |
| Operational free cash flow (before acquisitions / divestitures) | 329 | (465) | 794 |
| Acquisition of subsidiaries | (93) ³ | (10) | (83) |
| Divestiture of subsidiaries | 0 | 238 ² | (238) |
| Operational free cash flow | 236 | (237) | 473 |

1 Includes in 2023 non-cash amortization of current deferred income of CHF 406 million (2022: CHF 170 million), recognized in the income statement through EBITDA

2 Gains / cash inflows related to the divestiture of several businesses in Bioscience and Small Molecules

3 Related to the acquisition of Synaffix in 2023, see note 4 of the Full-Year Report 2023

3 April 2024

Publication of Annual and Sustainability Reports

8 May 2024

Annual General Meeting

13 May 2024

Ex-Dividend Date

14 May 2024

Record-Dividend Date

15 May 2024

Dividend-Payment Date

25 July 2024

Half-Year Results 2024

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