

Corporate



# Scientific and High-tech Solutions for Specialty Markets

2012 Full Year Results – 24 January 2013


Richard Ridinger - CEO

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# Lonza

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- **Highlights Full-Year 2012**
- Financial Results 2012
- Business Performance 2012
- Key Opportunities & Outlook



Full Year Report

## 2012 – An Important Year Strategically

In 2012 Lonza has experienced significant changes such as:


- The successful integration of the largest acquisition in our history, creating a new sector, an expanded global footprint and growing market segments to serve
- A broad new initiative, “Focus & Deliver”, including three major projects: Arch Integration, VispChallenge and Corporate Functions Review
- Changes in Leadership with a new CEO and new members to the Management Committee
- Debt reduction fully on track
- The successful divestiture of the Brandenburg, KY (USA) facility

## 2012 – Underlying Growth in Sales and EBITDA

- Solid sales growth with stable market demand
- “Focus and Deliver” remain key principles in all businesses
  - Portfolio management progressing well / first streamlining executed
  - VispChallenge intensified with head count reductions started
  - Arch Integration being finalized with majority of measures implemented
- Microbial Control performed as expected and has strengthened its market position further
- Although revenue increased in Custom Manufacturing the EBIT was impacted by ramp-up cost of new large-scale biological site in Singapore and quality related expenses in Hopkinton
- Significant free-cash flow generation despite dividend payment with deleveraging fully on track as guided
- 15% EBIT growth delivered

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Full Year Report

## 2012 – Financial Highlights

- EBIT increased to CHF 335 mn by 28.4% (after acquisitions) or 14.7% (before acquisitions)
- Operational free cash flow significantly increased to CHF 506 mn by 298.4%
- Net debt reduced from CHF 2.647 mn to CHF 2.301 mn by 13.1%, resulting in a gearing of 96% and a net debt/EBITDA ratio of 3.35 (before restructuring and Arch integration charges)
- NWC in relation to sales decreased to 23.5% in 2012 (23.9% in 2011)
- Capital expenditure at CHF 310 mn


# Key Financial Figures

CHF mn	FY 2011	FY 2012	Change YoY*
Sales	2'692	3'925	45.8%
EBITDA	537	640	19.2%
<i>EBITDA Margin</i>	19.9%	16.3%	
EBIT	261	335	28.4%
<i>EBIT Margin</i>	9.7%	8.5%	
Financing costs	(86)	(114)	
<i>Tax rate</i>	12.0%	18.0%	
Net Income	154	182	18.2%
EPS (CHF) basic	2.98	3.52	18.1%
EPS (CHF) basic CORE	4.36	4.81	10.3%
Operational Free Cash Flow	127	506	298.4%
Change in net working capital	(126)	154	
Capital Expenditures	267	310	16.1%
RONOA	6.9%	7.5%	
Net Debt	2'647	2'301	(13.1%)
Number of employees	11'001	10'789	(1.9%)

\* in %

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Full Year Report



# Lonza Today

## Lonza

1 Microbial Control	2 Custom Manufacturing	3 Life Science Ingredients	4 Bioscience
 <p>Hygiene + Preservation Water Treatment Material Protection Personal Care Wood Treatment</p>	 <p>Biological Manufacturing Chemical Manufacturing Development Services</p>	 <p>Nutrition Ingredients Performance Intermediates</p>	 <p>Therapeutic Services Research + Testing Solutions</p>
<p><b>2012</b> Sales: CHF 1.625 mn EBITDA: CHF 202 mn EBIT: CHF 138 mn</p>	<p><b>2012</b> Sales: CHF 1.320 mn EBITDA: CHF 323 mn EBIT: CHF 182 mn</p>	<p><b>2012</b> Sales: CHF 742 mn EBITDA: CHF 100 mn EBIT: CHF 31 mn</p>	<p><b>2012</b> Sales: CHF 228 mn EBITDA: CHF 34 mn EBIT: CHF 15 mn</p>

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

# Lonza Microbial Control Financial Highlights 2012

Key Figures		
CHF (mn)	2012	Changes YoY*
Sales	1.625	234.4
EBITDA	202	1.342,9
<i>Margin</i>	12.4%	
EBIT	138	
<i>Margin</i>	8.5%	

- Solid business performance in nearly all business units despite macro-economic headwinds especially in Q4
- Successful new businesses based on enlarged active substances and innovation
- Integration completely on track and delivering anticipated results

# Microbial Control (I)

## ■ Water Treatment

- Recreational Water Treatment had a good start in North America and a slightly later start in Europe due to weather and economic reasons
  - Latin America and South Africa with solid performance
- Good market penetration in shale oil / gas with new businesses for biocides, corrosion inhibitors and surfactants. This helped to offset weaker demand such as papermaking and industrial cooling water

## ■ Personal Care

- Business performance on target with strong sales of anti-dandruff in all regions and particularly in China
- Preservation products saw steady growth from new certified organic products
- Promising pipeline development which includes biological actives and functional ingredients

# Microbial Control (II)

## ■ **Hygiene & Preservation**

- Steady growth in North America and Asia while maintaining position in Europe
- Increased sales of more complex active ingredients offset some price pressure for traditional bulk ingredients

## ■ **Wood Protection**

- Ahead of target in residential and industrial markets
- South Africa and Asia experienced strong growth (residential construction)

## ■ **Material Protection**

- Volatile economic conditions in Europe (building industry) compensated by stronger performance in North America
- Asian anti-fouling market (shipbuilding) weaker

# Update on Arch Integration Efforts

## ■ Integration

- Building the world leader in Microbial Control
- Integration completely on track with majority of measures implemented

## ■ Main ongoing activities





- Consolidation of supply agreements to continue
- Harmonization of IT systems on a common SAP platform (rollout end 2013)

## ■ Divestment

- Performance Urethanes and Organics divested end of December 2012

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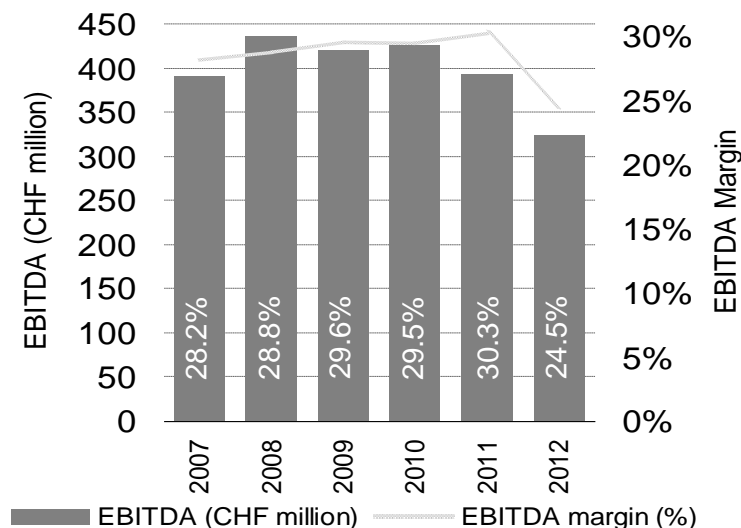
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# Lonza Custom Manufacturing Financial Highlights 2012

## Key Figures

CHF (mn)	2012	Changes YoY*
<b>Sales</b>	1.320	1.8
<b>EBITDA</b>	323	(17.8)
<b>Margin</b>	24.5%	
<b>EBIT</b>	182	(20.2)
<b>Margin</b>	13.8%	

## EBITDA and Margin Progression



- Capacity utilization lower than in 2011 due to Singapore start-up, Hopkinton production issues and product approval delays
- Sales and EBIT growth mainly impacted by slower than expected Singapore ramp-up and quality related expenses in Hopkinton
- New technologies see growing customer demand

\* in %

# Business Highlights (I)

## Chemical Manufacturing

- Continued high market interest for niche technologies and large-scale small molecule manufacturing services (e.g. peptides, conjugates, HAPI)
- High service quality results in long-term customer commitment
- Good asset utilization in all sites helps to mitigate margin pressure in commoditized products
- Project pipeline streamlined
- Conjugation Capacity Expansion in Visp being implemented to double the existing capacity by Q2 2014
- Large-scale peptide products successfully ramped up in Braine (BE)
- Successful FDA audits in Braine and Visp



# Business Highlights (II)

## Biological Manufacturing





- Steady pipeline development with new contracts ranging from early clinical to commercial products
  - Growing number of projects from Asia (mainly Japan)
- Successful FDA and EMA Inspections in Singapore and Visp. Hopkinton re-qualification on track
- Expansion of Lonza Slough on target, new disposable fermentation suites available Q1 2013

## Development Services

- Strengthened core technology platforms and regional footprint
  - Obtained earlier access to new drug candidates
  - Expanded business with small biotech companies and in Asia - particularly China and S. Korea
- Development Services Center of Excellence in Singapore online

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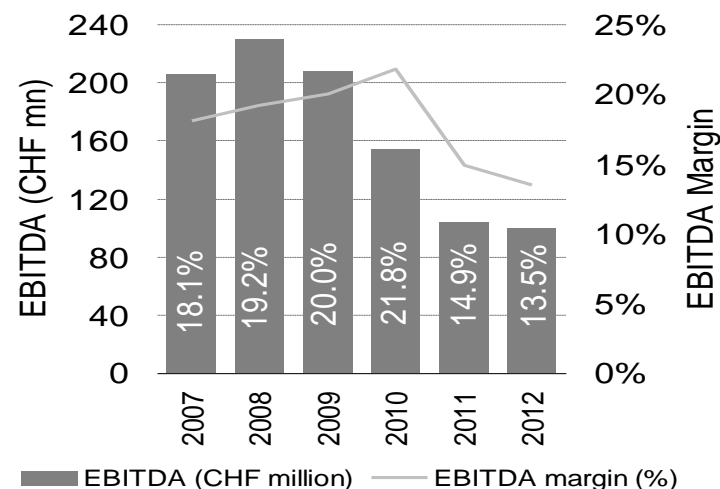
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# Lonza Life Science Ingredients Financial Highlights 2012

## Key Figures

CHF (mn)	2012	Changes YoY*
<b>Sales</b>	742	6.5
<b>EBITDA</b>	100	(4.8)
<b>Margin</b>	13.5%	
<b>EBIT</b>	31	(22.5)
<b>Margin</b>	4.2%	

## EBITDA and Margin Progression



- Improved business performance despite difficult market parameters
- Solid market demand, request for high quality products and supply reliability resulted in high capacity utilization
- Growth projects started up successfully

\* in %

# Life Science Ingredients

## Nutrition Ingredients





- Niacin / Niacinamide - situation remained difficult with ongoing competitive pressure
  - Price stabilized in H2 on a low level as some Asian manufacturers stopped vitamin B3 production
- Carnitine - new Nansha (CN) facility was successfully audited by several customers
  - Carnipure™ saw strong growth from new customers and new businesses in emerging markets
  - Carniking™ remained on a high level especially in pet food-markets
- Meta™ (metaldehyde) performed according to plan with high demand in Q4 2012

## Performance Intermediates

- Agro experienced a strong demand resulting in high capacity utilization
  - Expansion in a multi-purpose facility in Visp approved; operational end 2013
- High Performance Materials were impacted by weak economy in some areas
  - New Nanjing facility fully operational and continuing to grow (PMDA for electronic industry)

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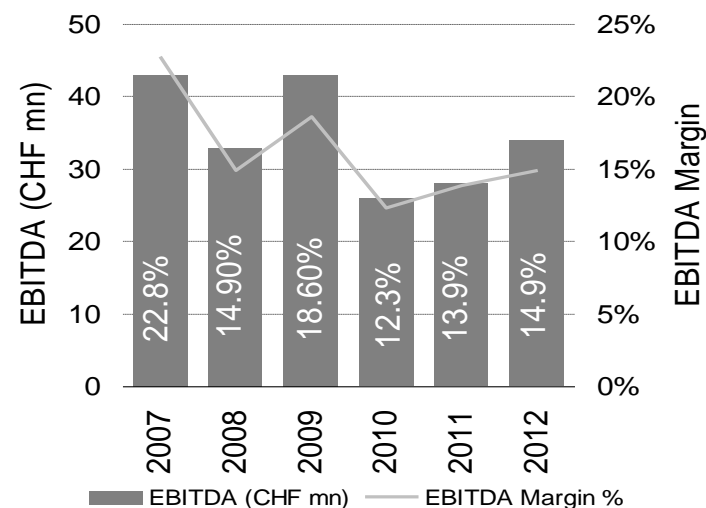
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# Lonza Bioscience Financial Highlights 2012

## Key Figures

CHF (mn)	2012	Changes YoY*
<b>Sales</b>	228	12.9
<b>EBITDA</b>	34	21.4
<b>Margin</b>	14.9%	
<b>EBIT</b>	15	15.4
<b>Margin</b>	6.6	

## EBITDA and Margin Progression



- Strong sales increase in Cell & Viral Therapy, Therapeutic Media and Asia
- Research & Testing solutions remains impacted by volatile economy and low academic spending in USA and Europe
- Start-up of Phase III manufacturing in Singapore Cell Therapy facility successful

\* in %

# Bioscience

## Research & Testing Solutions

- Solid sales growth in all regions despite low academic spending, especially good endotoxin sales development in US, EU and Asia
- Induced Pluripotent Stem Cell Technology sees growing customer demand (IPSC contract with National Institute of Health)
- Molecular Biology business under margin & volume pressure

## Therapeutic Cell Solutions

- Increased sales in Cell/Viral Therapy compared to 2011
  - Strong pipeline and increasing attention by big pharma in regenerative medicine
  - Start-up of Singapore facility & additional viral vaccines capacity in Houston
- Exclusive Collaboration Agreement with Sartorius Stedim Biotech
  - One stop solution for single use bioreactors, downstream processing and corresponding media & buffers


# Summary

- Solid sales growth with stable demand despite volatile macro-economic situation
- “Focus and Deliver” strategy remains key driver for the business
- VispChallenge project intensified to deliver productivity improvements of CHF 100 mn by 2015
- Arch Integration being finalized with majority of measures implemented
- Increasing market demand for new technologies (ADC, cytotoxics) and new offerings (agro, viral therapy, pluripotent stem cells)
- Portfolio review progressing, e.g. divestiture of Brandenburg site
- Significant free-cash flow generation despite dividend payment with deleveraging fully on track as guided
- 15% EBIT growth delivered



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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 **Near Term Cost Reduction**
  - Arch integration
  - VispChallenge
  - Corporate Functions review
- 3 **Longer Term Operational Improvements**
  - Manufacturing / Administration
  - Site / legal entity consolidation
- 4 **Cash Focus**
  - De-leveraging
  - EBITDA growth, capex / NWC control
- 5 **Portfolio Management**
  - Business portfolio
  - Product portfolio

2012

Reiteration of given guidance:

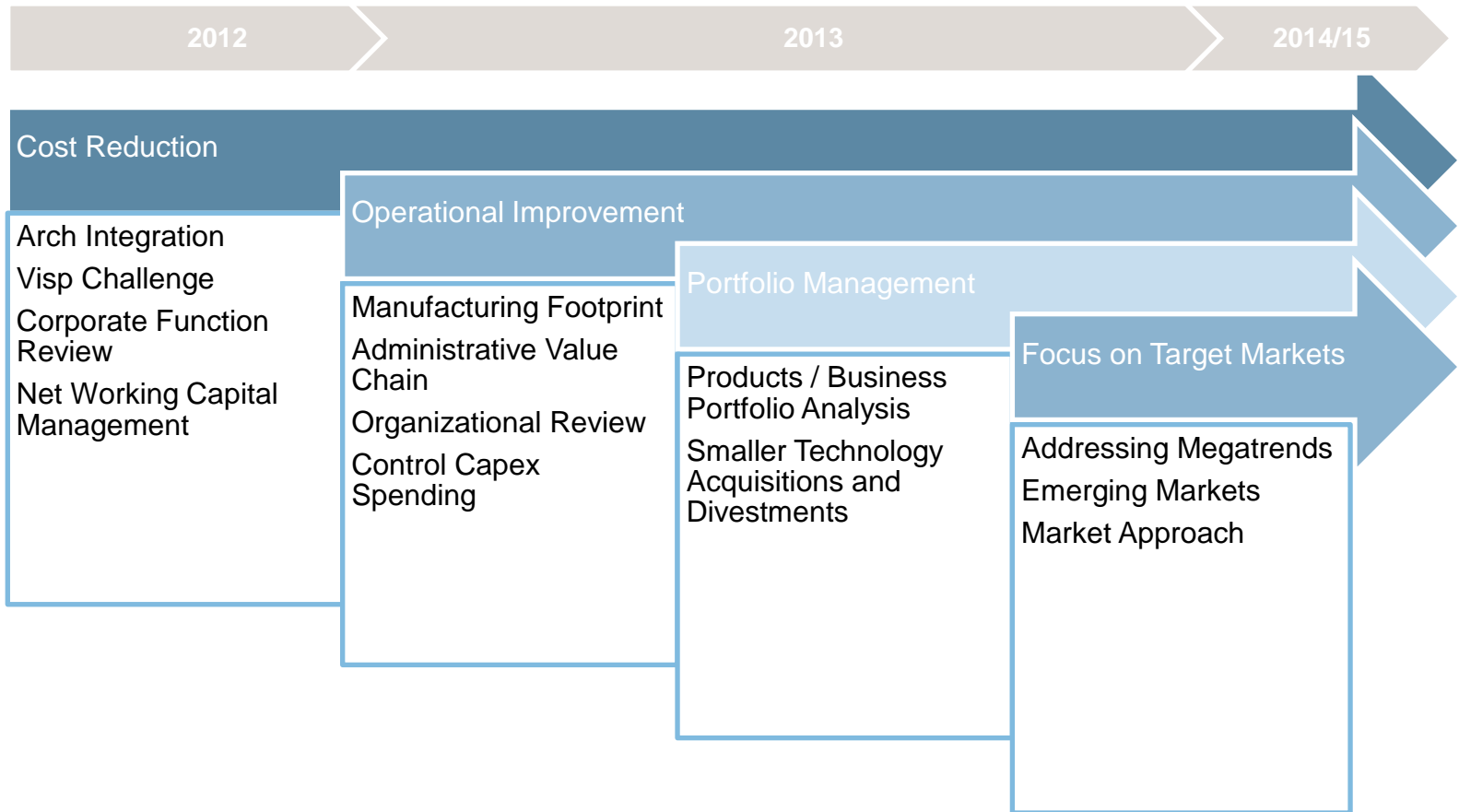
- $EBIT\ 2012 = EBIT\ 2011 + 10\% - 15\%$

2015\*

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

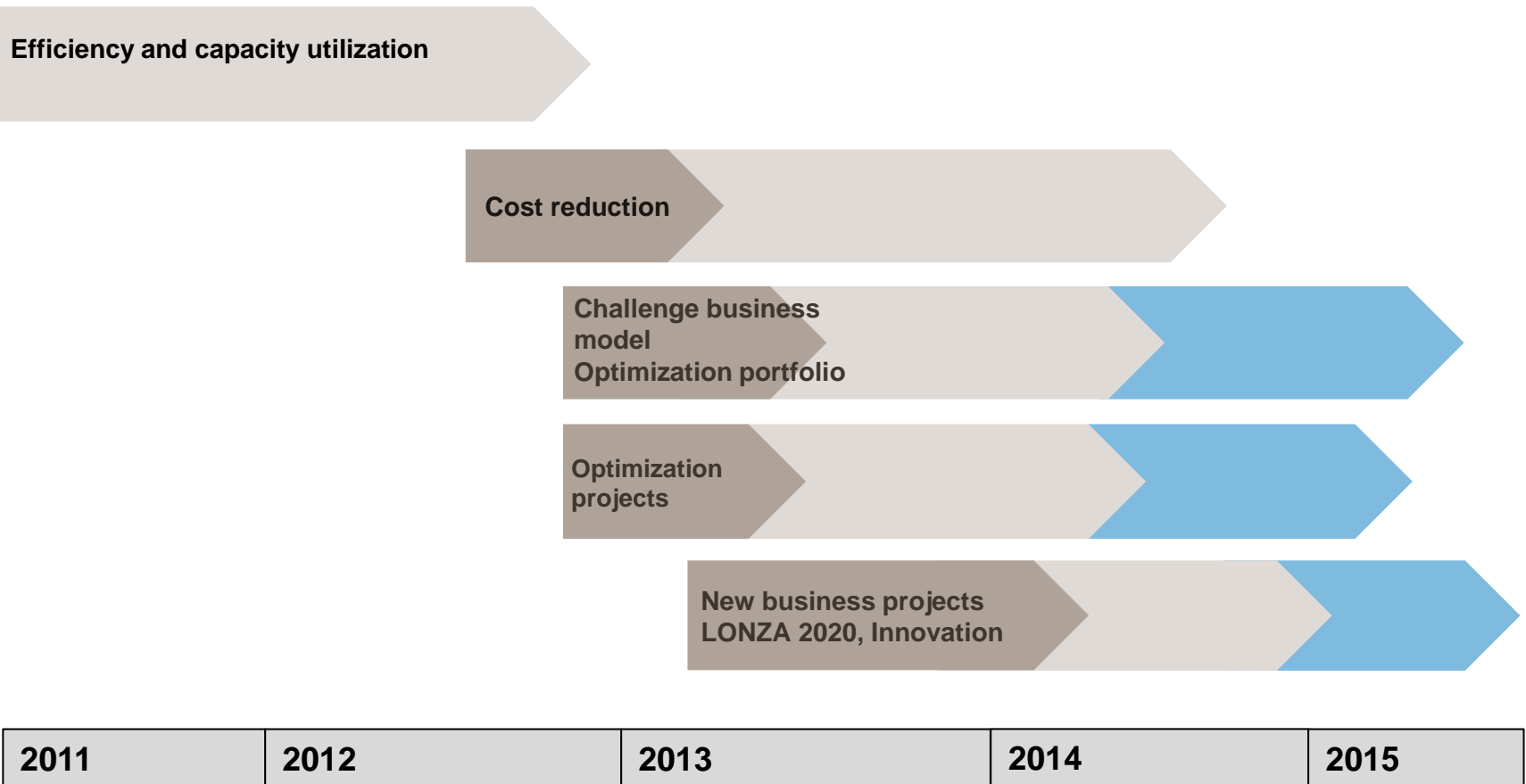
\* based on current fx and business composition

# Roadmap – The Path to Sustainable, Profitable Growth on a Solid Basis



Capital efficiency, return on net operating assets (RONOA), substantially reduced CAPEX

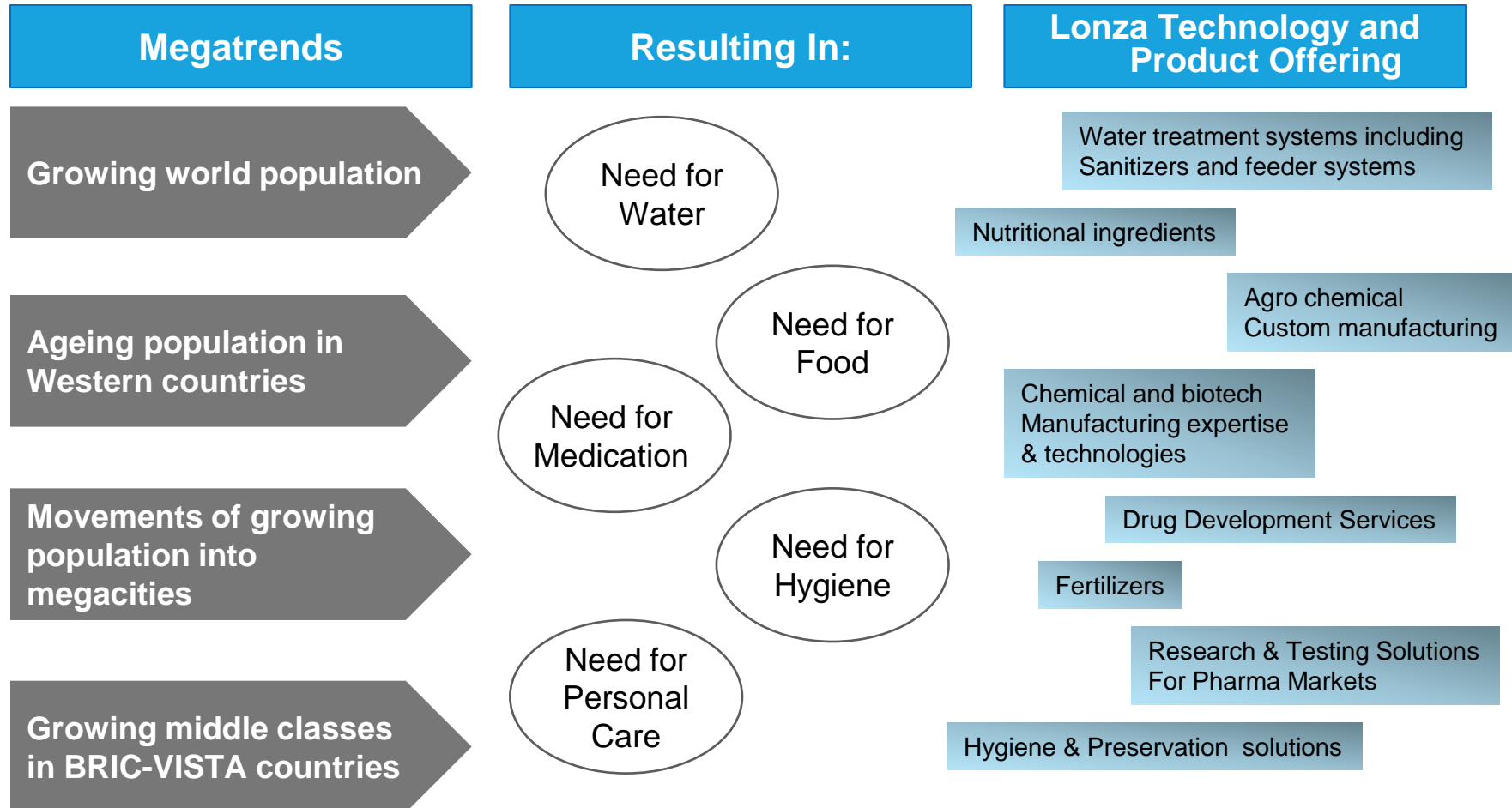
# VispChallenge – Update



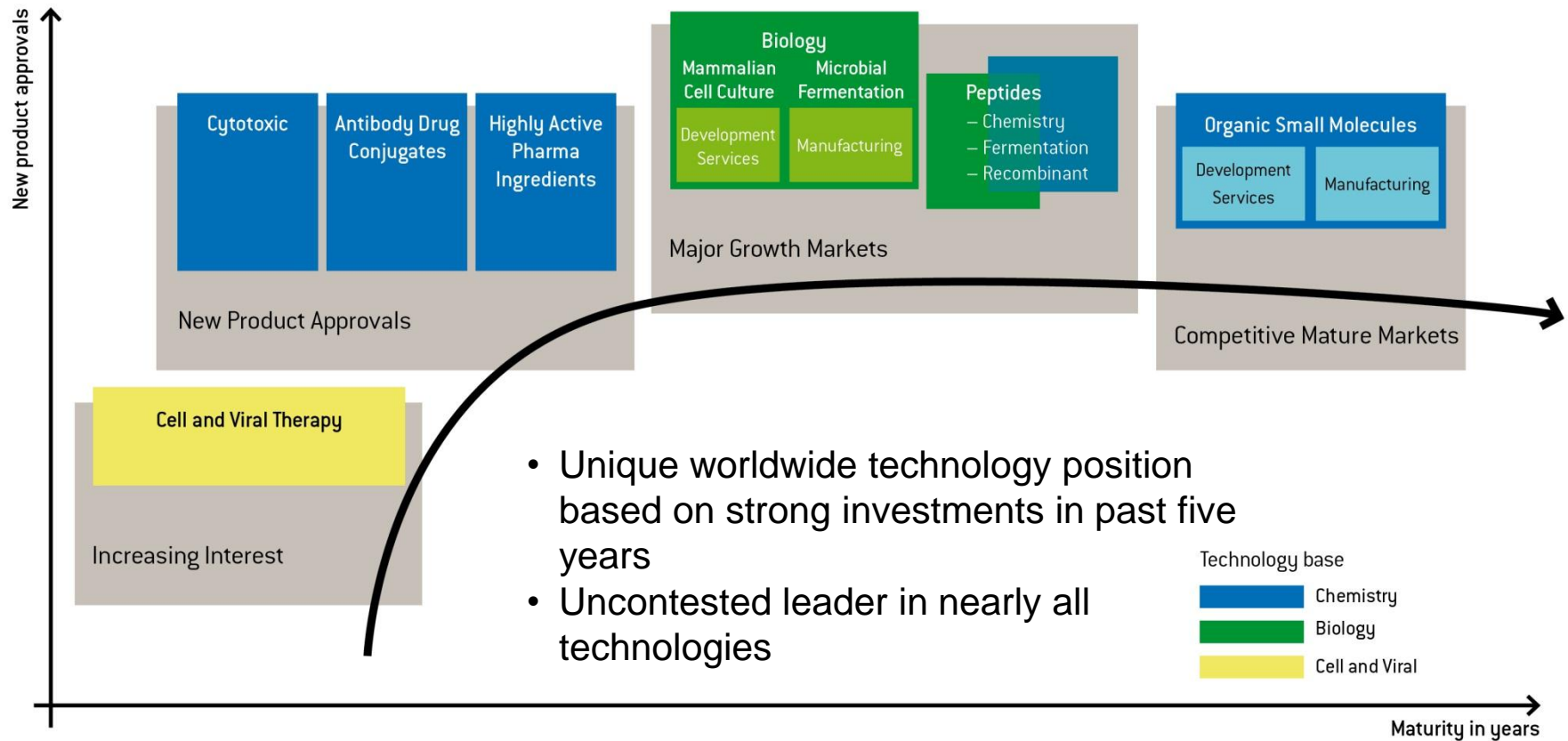
2011	2012	2013	2014	2015
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action definition
  implementation
  continuation

# Megatrends and Lonza's Solutions



# Lonza Custom Manufacturing: Unique Technology Portfolio for the Pharma Markets



# Outlook – 2013 a Transformational Year

- Focus and Deliver remain key to achieve targeted results
- In 2013 transformational changes will be initiated:
  - Review of manufacturing footprint
  - Continuing business portfolio review
  - Optimize the business approach to key markets
  - Organizational review
- CAPEX remains on level of CHF 300 mn
- Continued free cash-flow generation and deleveraging
- For the full-year 2013, Lonza expects further sales and EBIT growth

# 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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