

Corporate



## **Science and Technology for Pharma&Biotech, Nutrition and Well-Being**

**2013 Full-Year Results – 23 January 2014**

**Richard Ridinger – CEO**

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# **Lonza**

# Disclaimer

Certain matters discussed in this presentation may constitute forward-looking statements. These statements are based on current expectations and estimates of Lonza Group Ltd, although Lonza Group Ltd can give no assurance that these expectations and estimates will be achieved. Investors are cautioned that all forward-looking statements involve risks and uncertainty and are qualified in their entirety. The actual results may differ materially in the future from the forward-looking statements included in this presentation due to various factors. Furthermore, except as otherwise required by law, Lonza Group Ltd disclaims any intention or obligation to update the statements contained in this presentation.



# Lonza Market Segments

## Lonza

### Specialty Ingredients Market Segment

**Our Markets:**

Consumer Care incl.  
Personal Care & Preservation  
Nutrition  
Hygiene

Agro Ingredients

Water Treatment

Industrial Solutions

Wood Protection

**2013** \*1

Sales: CHF 2,155 mn  
CORE EBITDA: CHF 372 mn  
CORE EBIT: CHF 254 mn

### Pharma&Biotech Market Segment

**Our Markets:**

Custom Manufacturing

Custom Development

Bioscience Solutions

**2013** \*1

Sales: CHF 1,426 mn  
CORE EBITDA: CHF 353 mn  
CORE EBIT: CHF 207 mn

\*1 – CORE definition: see appendix

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## 2013 – Business Overview

- Lonza is delivering strong results with CORE EBIT growth of 11.2% to CHF 436 million
- Solid CORE EBIT results stem from the continued success of product portfolio optimization and from the execution of efficiency improvement programs
- CORE EBITDA margin increased from 17.6% in 2012 to 19.8% in 2013
- Operational free cash flow on continued high level of CHF 519 million
- Net debt reduction on target, and debt has been reduced by ~CHF 200 million to CHF 2,103 million, resulting in a net debt/EBITDA ratio of 2.77x
- Lower revenues resulted from lower Water Treatment sales, product portfolio optimization measures, unfavorable exchange rate (translation effect), weaker Pharma&Biotech sales in H1 and the phasedown of the Hopkinton, MA (USA) site
- Headcount (FTE) reduction in 2013 by 7.9% to 9,935 (-854 positions) according to our previously announced restructuring program
- The Board of Directors is proposing a cash dividend of CHF 2.15 per share for 2013

## 2013 – Operational Highlights

- Re-organization of company towards a market-oriented organization fully on track
- Successful continued implementation and execution of key corporate projects such as Manufacturing Footprint, Go-to-Market Excellence and Business Service Excellence
- Reduction of complexity with closure of Swords (IE) and St. Beauzire (FR), as well as the phase-down of Hopkinton
- Successful and on time start-up of new ADC and Agro facilities in Visp (CH)
- Successful SAP integration of legacy Arch – 90% of the organization now on same platform
- The carve-out process of the Wood Protection business began on 1 January 2014

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## 2013 – Financial Highlights

- CORE EBITDA growth of 8.2% to CHF 711 mn (19.8% margin)
- CORE EBIT growth of 11.2% to CHF 436 mn
- Operational free cash flow increased by 11.6% to CHF 519 mn
- Net debt reduction on target, and debt has been reduced by ~CHF 200 mn to CHF 2,103 mn, resulting in a net debt/EBITDA ratio of 2.77x
- CORE RONOA at 12.3% (11.0% in 2012)
- Capital expenditure down 32.3% to CHF 210 mn
- Long-term refinancing secured at favorable conditions



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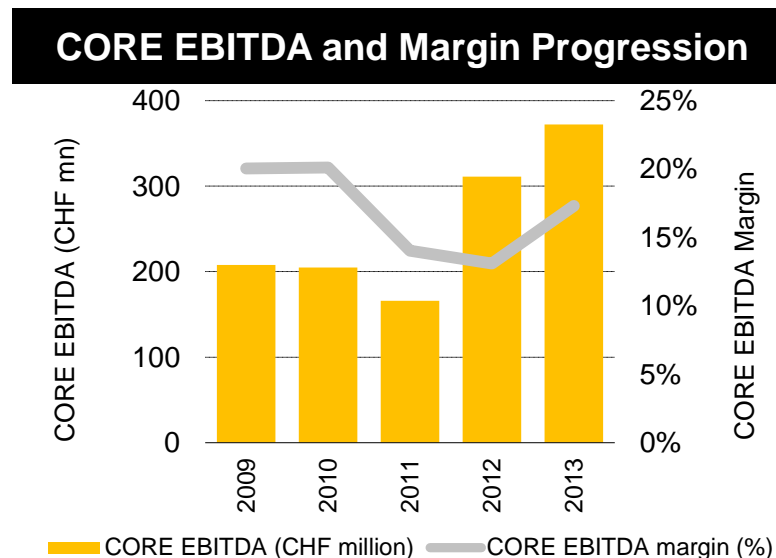
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# Specialty Ingredients Market Segment

Key Figures		
CHF (mn)	2013	% Changes YoY
Sales	2'155	-1.3
CORE*1 EBITDA	372	22.4
Margin	17.3	
CORE*1 EBIT	254	29.6
Margin	11.8	



- Specialty Ingredients delivered a strongly positive performance with substantially increased profitability in nearly all markets and in total
- Revenues affected by weather in Water Treatment business and by H7N9 outbreak in feed-grade Nutrition business
- Successful completion of the Arch integration

\*1 – CORE definition: see appendix

# Business Highlights

## Consumer Care Market

### Personal Care & Preservation

- Preservatives experienced a strong demand throughout the year, especially from new multinational customer products
- New product launches resonated in the marketplace with proprietary ingredient blends delivering new business at several global consumer goods companies
- Swords (IE) plant closed and product supply out of Rochester, NY (USA) and Suzhou (CN) successfully ensured

### Nutrition

- Niacin prices and margin improved further but on slow pace
- Full-commissioning and commercial start-up of the new facility in Nansha in Q3 2014 fully on track
- L-Carnitine site in Nansha is now fully operational (food/feed/pharma grades) with increased volumes

### Hygiene

- Good growth coming from Formulated Solutions (providing ready-made products and registrations)
- Disinfecting wipes for consumer retail brands, healthcare applications and private label
  - Strong and increasing demand
  - New agreements were secured with global leaders in private-label wipes
  - New rapid-kill formulations developed to meet needs of Institutional & Consumer market

# Business Highlights

## Agro Ingredients + Water Treatment

### Agro Ingredients

- High capacity utilization in all major production trains
- Capacity expansion project in Visp's multi-purpose assets finalized and started up successfully and on time
- Industry interest in Lonza's biotechnological custom development and manufacturing capabilities continued to increase and resulted in a steadily growing pipeline and strong growth in commercial sales
- Meta™ experienced an extraordinary year due to favorable weather conditions. Strategic geographic expansion on-going
- Lonza's formulation ingredients and solutions such as the ready-to-use preservation agents (Proxel™) are gaining growing interest from the agro industry

### Water Treatment

- Unseasonably poor weather affected sales and EBIT of recreational water treatment in most territories
- Good sales in EMEA including new countries
- Successful new product launches in recreational water business
- Industrial water treatment had successful geographic expansion and made good progress with the introduction of the new feeder systems

# Business Highlights

## Industrial Solutions + Wood Protection

### Industrial Solutions

- The Materials Protection business performed well across almost all application areas
- High-Performance Materials used in electronics and aerospace experienced good demand as expected
- Solutions for the oil- and gas-producing industry continue to grow as expected
- Basic chemicals market demand and supply are in line with our expectations

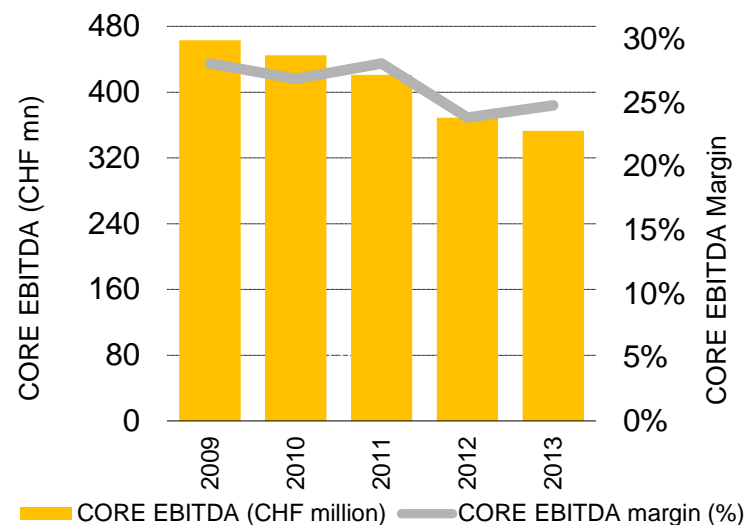
### Wood Protection

- Sales and margin improvement based on introduction of innovative new products, price increases and cost reduction
- Volumes increased in the United States and Europe because of improved conditions in the economy and construction markets
- Residential market sales compensated for somewhat lower industrial volumes in North America
- Volumes in Asia Pacific remained stable but were affected regionally by slower-than-anticipated economic growth
- Carve-out project proceeding according to plan

# Pharma&Biotech Market Segment

Key Figures		
CHF (mn)	2013	% Changes YoY
Sales	1'426	-7.9
CORE*1 EBITDA	353	-4.3
Margin	24.8	
CORE*1 EBIT	207	-7.6
Margin	14.5	

## EBITDA and Margin Progression



- Stronger H2 compared with H1 as anticipated
- Revenues affected by scheduled production stop for ADC build-out, Singapore adaptations, Hopkinton phasedown and product portfolio optimizations
- New long-term contracts signed, supported by a continued outsourcing trend for commercial and late-stage products for biologically and chemically derived products

\*1 – CORE definition: see appendix

# Business Highlights

## Custom Manufacturing

- Chemical Manufacturing with new client acquisitions and projects across Small Molecules and Conjugates
- Portfolio profitability and product mix improvement on track for most technologies
- On track with build-out of additional commercial scale ADC capacity in Visp (CH) and continued demand for integrated ADC offering with full service from mAb manufacture to conjugation in Visp and Slough (UK)
- Biological Manufacturing on track with large-scale production of key projects
- Strong pipeline development for long-term assets commitment in biopharma
- Positive customer response to new consolidated microbial biopharma offerings in Visp
- Viral Therapeutics project portfolio remained strong with expanding customer base
- Strong Cell Therapy pipeline driven by public market and large Pharma investment

# Business Highlights

## Custom Development + Biosciences Solutions

### Custom Development Services

- Core Technology Platforms strengthened to address industry challenges
  - Miniaturization and automation implemented in Mammalian and Microbial Process Development to improve process robustness and speed of development programs
  - Developability Assessment Platform launched
- Strategic Development Services and License Agreements signed for Potelligent CHOK1SV Cell Line and for GS Xceed™
- Regional footprint expanding in Asia for technologies and services
- Singapore Development Services Labs fully operational

### Bioscience Solutions

- Overall solid business performance driven by emerging markets, United States and Europe but affected by poor funding and conservative spending
- Testing Solutions with good overall growth coming from endotoxin detection sales and strong growth in Asian markets
- Research Products facing difficult market environment and aggressive competition
- Bulk & Custom Media's positive development supported by the Sartorius collaboration



## Key Opportunities & Outlook

- Transformation and reduction of complexity will continue with the implementation of corporate projects
- Productivity improvement projects will continue in 2014 with a stronger emphasis on organic growth and quality matters
- Based on order-book visibility, new market orientation and restructuring initiatives, we provide the following outlook for 2014:
  - Revenue growth of ~5%
  - CORE EBIT growth of ~10%
- CAPEX will remain below CHF 300 mn in 2014
- For 2015 our mid-term targets remain unchanged

# Calendar of Events and Contacts

## Important Lonza Group Dates

- 23 Jan 2014 Full-Year 2013 Results
- 16 Apr 2014 Annual General Meeting
- 24 Apr 2014 First-Quarter 2014 Business Update
- 21 May 2014 Capital Markets Day in Visp (CH)
- 24 July 2014 Half-Year 2014 Results
- 31 Oct 2014 Third-Quarter 2014 Business Update

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# Appendices

## **CORE Results as Defined by Lonza**

Lonza believes that understanding in the financial markets of the Group's performance is enhanced by disclosing core results of performance because the core results enable better comparison across years. Therefore the core results exclude exceptional items such as restructuring charges, impairments and amortization of acquisition-related intangible assets which can differ significantly from year to year. For this same reason, Lonza uses these core results in addition to IFRS as important factors in assessing the Group's performance.

# Key Financial Figures

CHF mn	FY 2013	FY 2012 <sup>*1</sup>	% Change YoY
Sales	3'584	3'741	(4.2%)
EBITDA	647	620	4.4%
<i>EBITDA Margin</i>	18.1%	16.6%	
CORE EBITDA	711	657	8.2%
<i>CORE EBITDA Margin</i>	19.8%	17.6%	
EBIT including Hopkinton phasedown	253	316	(19.9%)
<i>EBIT Margin</i>	7.1%	8.4%	
CORE EBIT	436	392	11.2%
<i>CORE EBIT Margin</i>	12.2%	10.5%	
Financing Costs	(119)	(111)	(7.2%)
<i>Tax Rate</i>	17%	18%	
Profit for the Period	87	156	(44.2%)
EPS (CHF) Basic	1.67	3.01	(44.5%)
EPS (CHF) Basic CORE	4.99	4.50	10.9%
Operational Free Cash Flow	519	465	11.6%
Change in Net Working Capital	42	141	
Capital Expenditures	210	310	(32.3%)
<i>RONOA (before Hopkinton phasedown)</i>	5.9%	7.0%	(15.7%)
<i>RONOA (including Hopkinton phasedown)</i>	8.7%	7.0%	(24.3%)
<i>CORE RONO</i>	12.3%	11.0%	11.8%
Net Debt	2'103	2'301	(8.6%)
Number of Employees	9'935	10'789	(7.9%)

<sup>\*1</sup> – Restated as a result of IAS19 and divestiture of Performance Products

<sup>\*2</sup> – CORE definition: see appendix