

**We work with passion, using advanced technologies, to transform life science into new possibilities for our customers.**

**Lonza**

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**Business Update: Third Quarter 2009**

**29 October 2009**

Stefan Borgas

Chief Executive Officer

## Disclaimer

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- “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. The actual results may differ materially in the future from the forward-looking statements included in this presentation due to various factors. Furthermore, Lonza Group Ltd has no obligation to update the statements contained in this presentation.”

## Key Messages

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- Recent accumulation of unexpected cancellations, postponements since the end of September and price-volume reductions will lead to an operational EBIT of CHF 360-380 million for the full year 2009
- Immediate implementation of comprehensive measures will deliver CHF 60-80 million cost reduction over the next two years
- Life science growth strategy remains intact

## Recent Significant Market Driven Events

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- Cancellations and postponements in large-scale biopharmaceutical custom manufacturing
- 18 month delay of a lead customer project in cell therapy due to clinical disappointments
- Continued low order level in Exclusive Synthesis due to key customers reducing net working capital
- Continued reduced demand for Nutrition Ingredients combined with significantly lower pricing for the fourth quarter
- On-going margin pressure in Microbial Control and Performance Intermediates



Situation requires swift and decisive action to strengthen Lonza's delivery capabilities

## Comprehensive Measurement Package Developed and under Implementation (I)

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**Targets of measurement package implemented through a re-engineering project “Bond” in the next 18 months**

- Support overall strategy development
- Simplification of processes and structures
- Delivery improvement with major focus on sales and R&D
- Restore RONOA in the short term:
  - Cost reduction to increase profitability
  - Lower CAPEX to match lower growth
  - Lower NWC to free up cash and reduce capital basis
- Generate future growth opportunities

 **Improve overall strategy delivery**

# Comprehensive Measurement Package Developed and under Implementation (II)

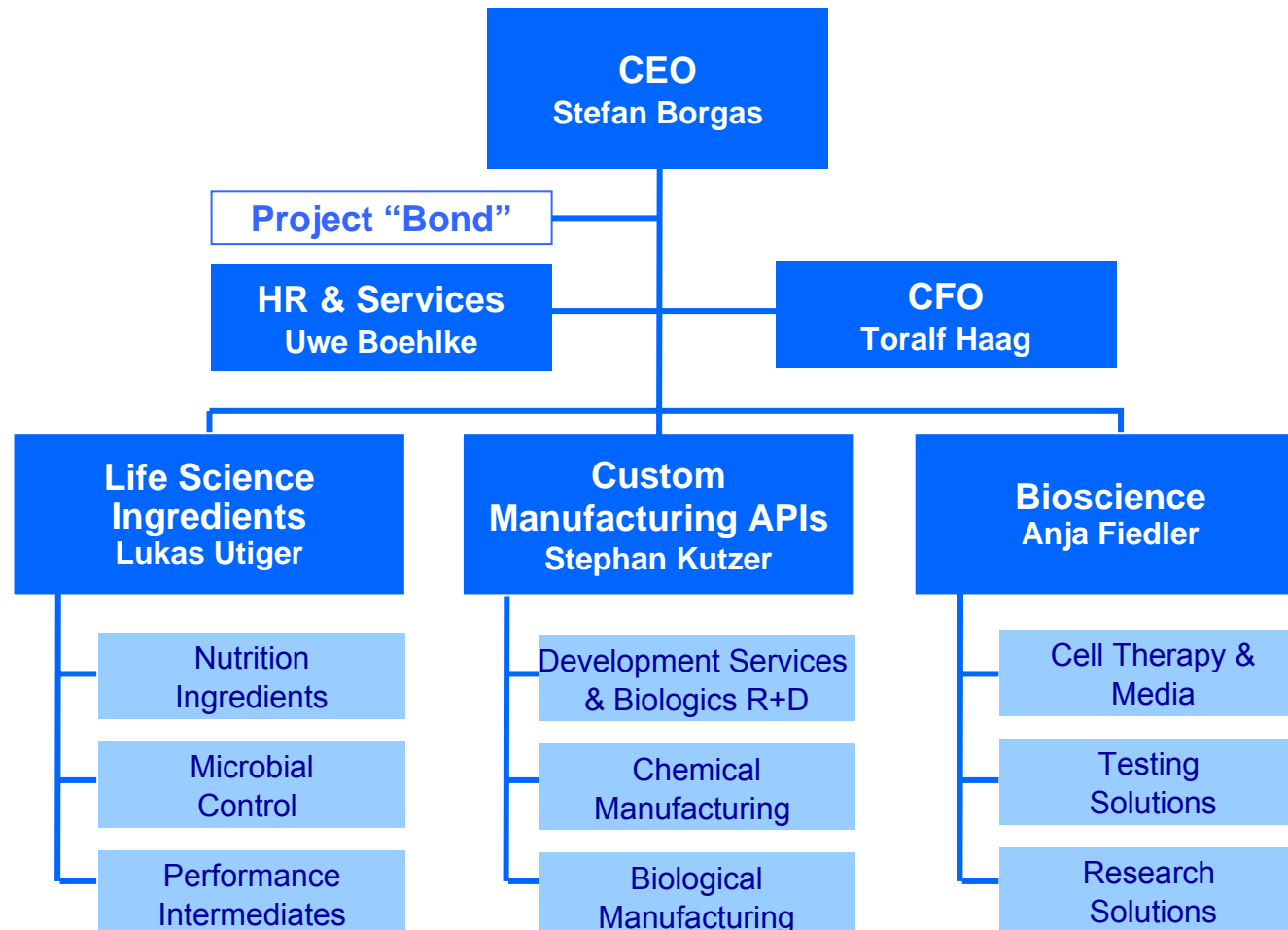
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## Major activities

- Reduce the fixed cost by CHF 60-80 million over the next two years
- Reduce number of Management Committee members from seven to six which leads to a consolidation of business units
- Adapt biopharmaceutical large-scale capacities in order to be able to competitively fill with smaller volume products
- Continue to expand the project pipeline in Custom Manufacturing as started in 2009 and increase longer-term customer collaborations
- Further increase resources in sales and business development and align the organization to customer projects
- Reduce Capex from the originally targeted CHF 500 million in 2010 to below CHF 400 million and to a similar amount in 2011
- Net working capital will be reduced again to reach our target of 20-25% of sales by the end of 2010
- Asset review under way

# Executive Management Structure

- Streamline structures by reducing business units from 15 to 9



## Life Science Growth Strategy Remains Intact

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- Environment of high volatility is expected to continue the next few years
- Significant free operational cash flow expected already in 2010
- Increased financial flexibility will enable to evaluate specific expansions possibilities in our life science focused value chain



Lonza will continue to drive growth initiatives by strategic investments and organic growth



## Acquisition Strategy Remains Intact

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- Value creating add-on acquisitions on track with focus to:
  - Enlarge technology portfolio for LBS
  - Strengthen offering for life-science researchers including services (CRO)
  - Strengthen CMO value chain by entering finished dosage form development and manufacturing
  - Add niche portfolio products to our nutrition business
  
- Approach to acquisitions remains disciplined:
  - Gearing will not increase structurally above 80%
  - Target is 2nd year EVA and EPS accretion
  - Limitation of non-financial risks as much as possible

## Successful Delivery of Strategic Projects

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- Successful start-up of second phase of Nansha (CN) API facility
- Opening of new Microbial Control formulations plant in Nanjing (CN) and registration approval of first own products for marketing
- Groundbreaking of new Cell Therapy facility in Singapore
- Roche/Genentech and Lonza announce opt-in for Singapore manufacturing facility
- Strategic decision to enter formulations market in the mid term

## Life Science Ingredients (I)

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### Summary

- Increasing price pressure without volume recovery in Nutrition
- First recovery tendency in Microbial Control in Q4
- Fixed cost savings have defended margins until now
- Raw material price situation remains stable
- Growth of R&D pipeline on track with a total number of 121 projects

### Performance Intermediates

- Slightly increased demand for diketene and HCN derivatives based on very low H1 levels – overall still significantly below 2008
- Agro operations performance is solid, slowdown of customer order expected for 2010 due to de-stocking
- High Performance Materials sales increased in Q3, but is still below 2008 levels

## Life Science Ingredients (II)

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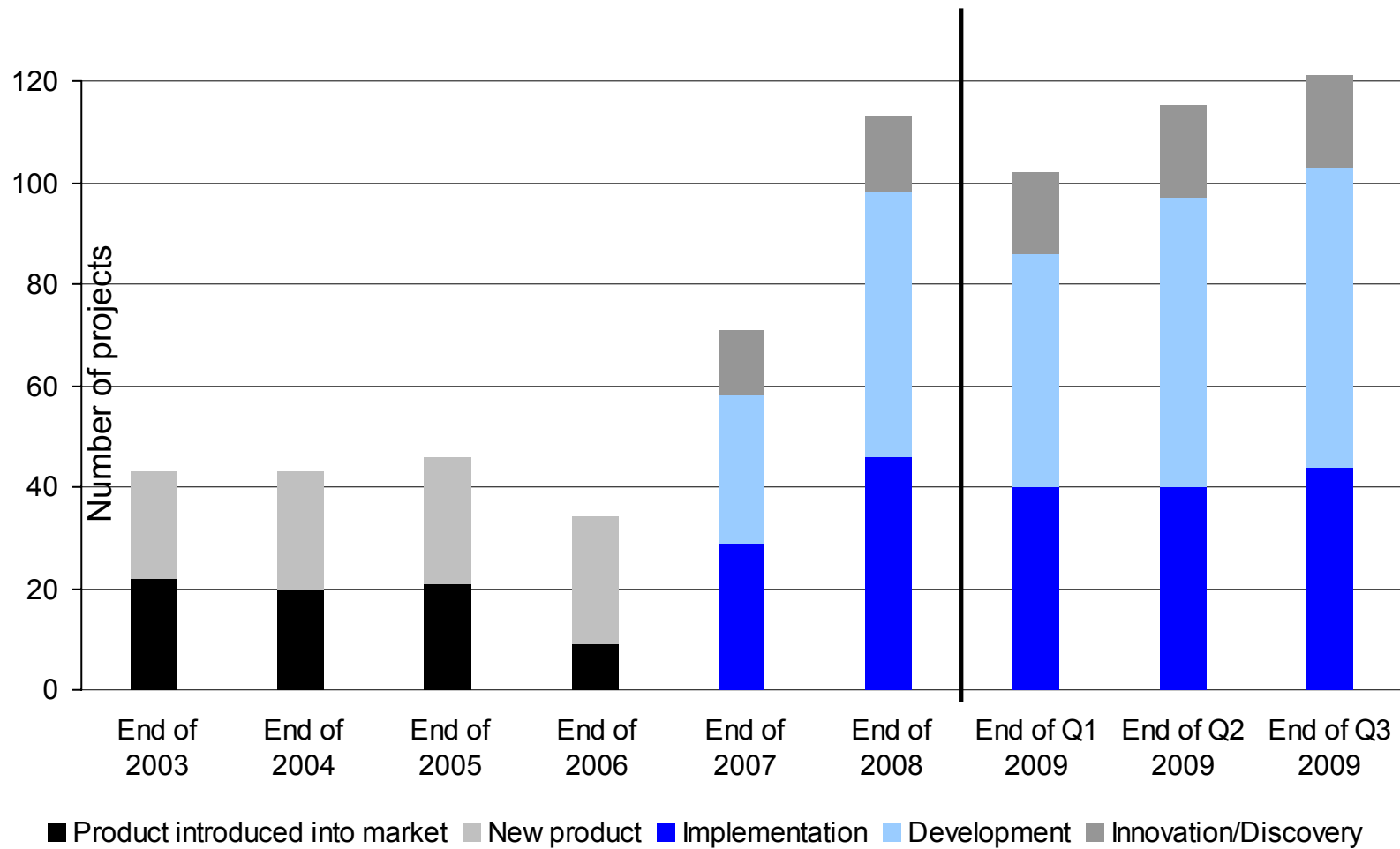
### Nutrition Ingredients

- Sustained reduced demand of nicotines compared to 2008, increasing pressure from competition
- Slower sales in Meta™ due to very dry season in Europe
- Demand of Carnipure™ at target levels

### Microbial Control

- Increased sales in Q3 compared to H1/09 in some markets but market recovery is patchy and slow
- Pandemic threat of H1N1 leads to increased demand of biocidal quats and amines
- Carboquat™ sales remain below expectation due to construction industry crisis and a new competitive product in the US
- Stable raw material prices and stringent fixed cost management partially mitigated reduced sales and lower asset utilization

# Life Science Ingredients – Project Pipeline (New Products)



## Lonza Custom Manufacturing – Exclusive Synthesis

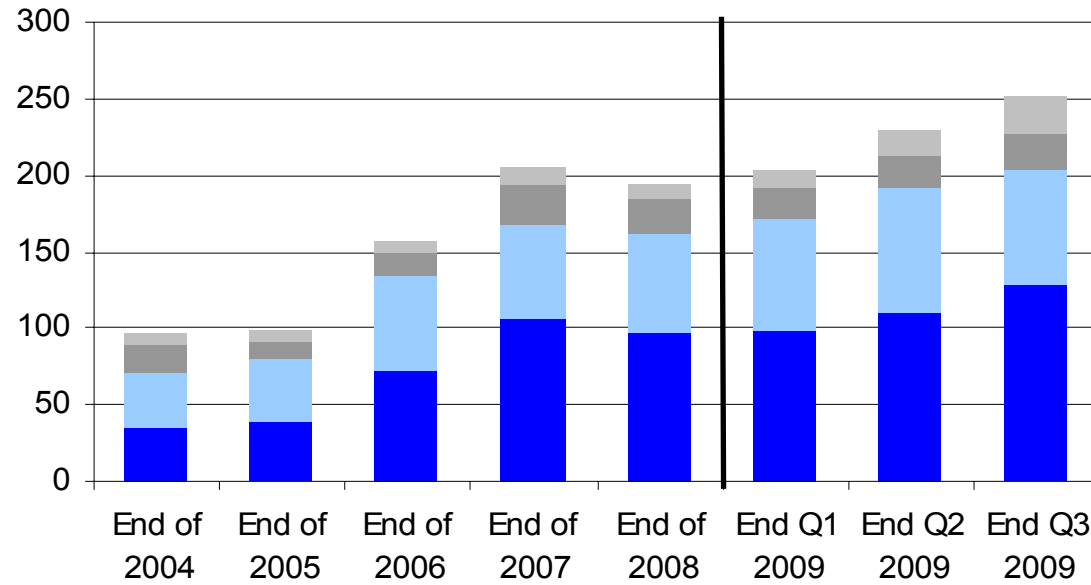
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- Order cancellations due to ongoing NWC reduction programs lead to lower sales and EBIT
- Growth of project pipeline on track, supported by unchanged customer interest in outsourcing
- Projects and new capacities realized to strengthen mid-term development:
  - Large-scale API production in Nansha (CN) phase 2 on track
  - Drug conjugate production in Visp (CH) validated first product; second phase on track
  - Driven by strong market demand Kouřim (CZ) increased thymidine capacity by 45%
  - Small-scale peptides production in Nansha established and accepted by customers
  - Lab expansion in Visp for small scale production for highly potent APIs nearing completion
- High customer interest in microreactor production projects

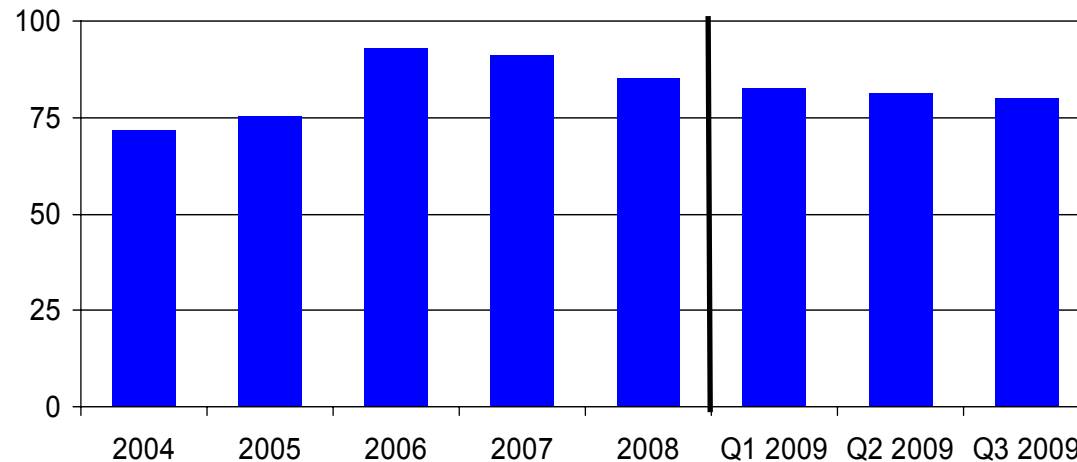
# Lonza Custom Manufacturing – Exclusive Synthesis

**Project pipeline**  
Number of projects

- preclinical
- phase I
- phase II + III
- launched



**Capacity utilization**  
in %



# Lonza Custom Manufacturing – Biopharmaceuticals

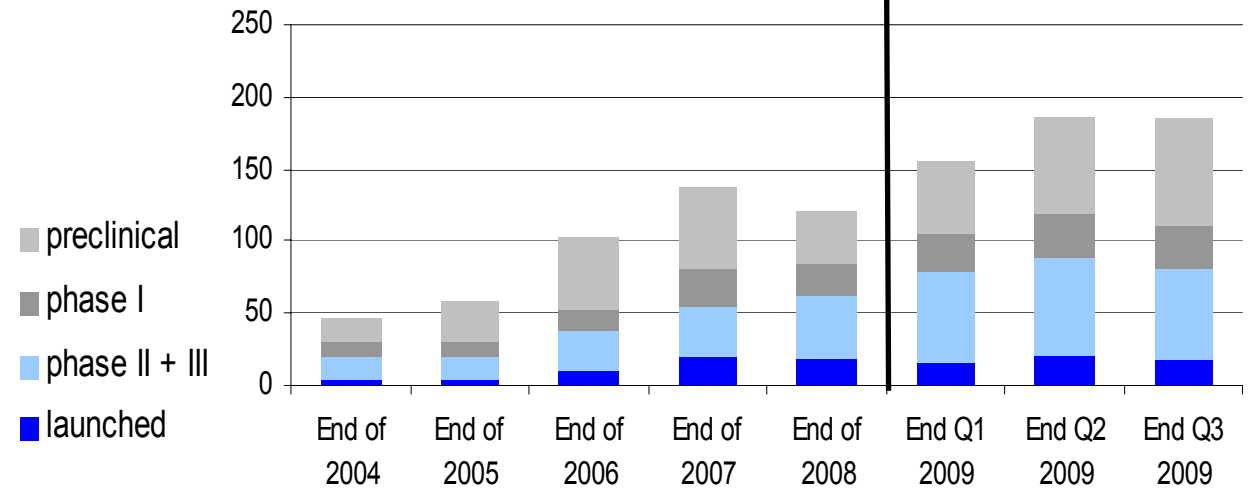
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- Recent cancellations and postponements significantly impact sales and EBIT in 2009 and 2010
- Continued strong interest and demand for Lonza’s “Total Product Life Cycle and Pipeline Management” concept with ongoing pipeline collaboration discussions
- 2 000-liter line expansion in Hopkinton, MA (USA) finalized and started up
- Operations
  - Porriño (ES) retrofitting finalized and start-up with four new customer projects
  - Slow utilization ramp up for the large scale trains
  - Hopkinton operational performance significantly below acceptable standards – management changes and turn-around program shows first successes
- Innovative mammalian platform now delivering scalable and reproducible very high titer processes (up to 10g/l)
- Strong pre- and early clinical pipeline support a high utilization of Biopharma Services and small/mid scale manufacturing suites

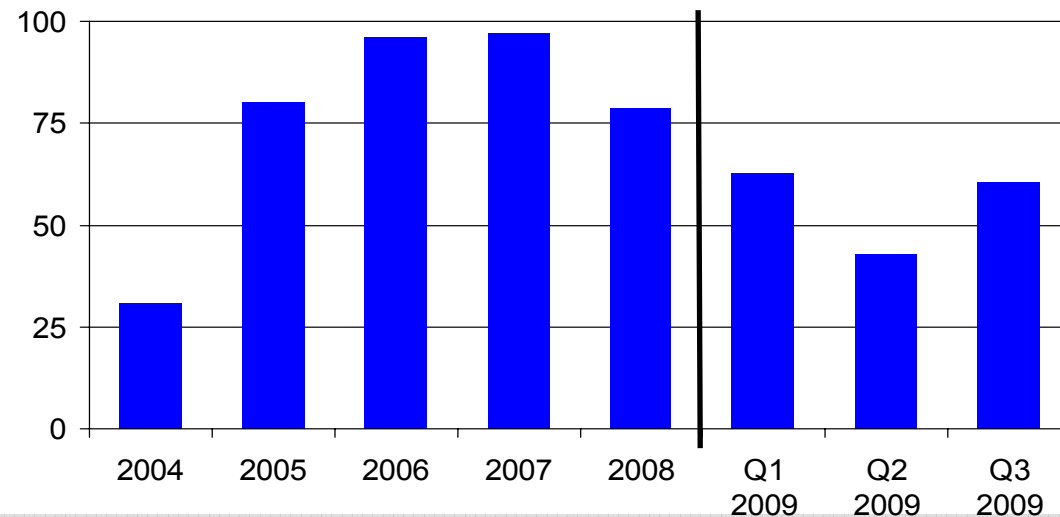


# Lonza Custom Manufacturing – Biopharmaceuticals

**Project pipeline**  
Number of projects



**Capacity utilization**  
in %



# Bioscience

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## Summary

- Stronger sales compared to 2008 despite negative exchange rate impacts
- Profitability better than in 2008 but below expectations mainly due to ongoing lower demand due to the economic conditions and CT postponement
- Operating costs savings and operational improvements continued to make positive impact

## Cell Discovery

- Q3 sales level on par with 2008 Q3 sales, despite 1,5% exchange rate impact

## Cell Therapy

- Revenue increase over 2008, however, recent postponement of lead product impacts sales and EBIT in 2009 and 2010
- Groundbreaking on cell therapy site in Singapore
- Manufacturing and service contracts signed with 2 new therapeutic clients

## Media & Rapid Testing

- Growth in line with expectations

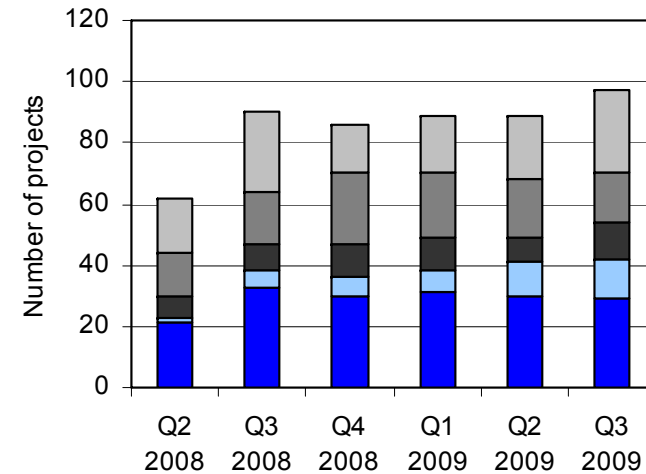
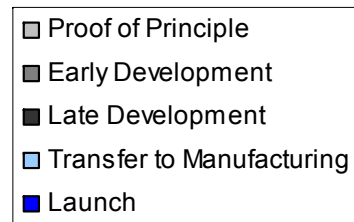
## Molecular Biology

- Agarose sales behind target, mainly due to weak demand in bulk business

# Bioscience Project Pipeline – New Products and Therapeutic Clients

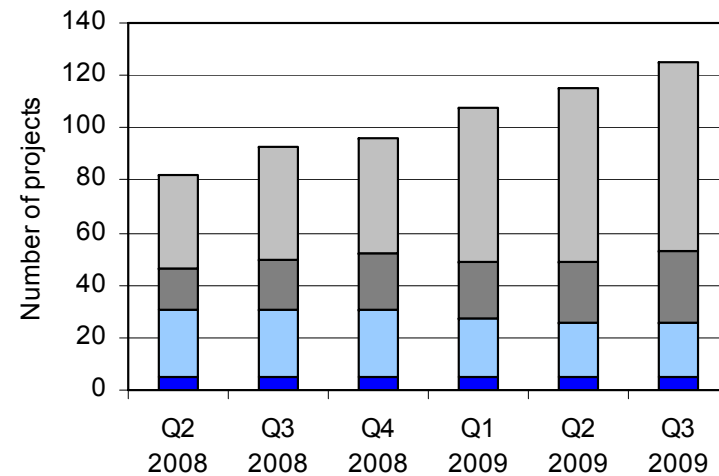
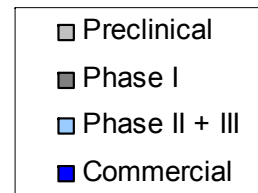
## New Products

(Cell Discovery, Molecular Biology, Rapid Testing, Media)



## Therapeutic Clients

(Cell Therapy, Media)



## Summary and Status

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### Third Quarter 2009 Status

- Performance behind expectations due to continued cancellations and postponements
- Comprehensive measures package developed with increased cost focus by streamlining organizational structure, strategic adaptations to further enhance customer focus and reduction of Capex to below CHF 400 million
- Life Science growth strategy remains intact

### Outlook

- High volatility in the mid term will remain in place
- Lonza will continue to drive growth initiatives in the form of strategic investments and organic growth projects
- Free cash flow will increase over the next 18 months providing room for shareholders' cash yields

## Calendar of Events and Contacts

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### ■ Important Lonza Group Dates

- 3/4 November 2009 Investor Event, Basel
- 28 January 2010 Full Year 2009 Results
- 31 March 2010 Annual General Meeting
- 22 April 2010 First Quarter 2010 Business Update
- 22 July 2010 Half Year Results 2010
- 27 October 2010 Third Quarter 2010 Business Update
- 16/17 Nov. 2010 Investor Event

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