

Corporate

Lonza Reports Record-Breaking Full-Year Results 2017 with Double-Digit Lonza Standalone Sales Growth and More than 26% CORE EBIT Growth in a Major Transformational Year

Richard Ridinger – CEO
Rodolfo Savitzky – CFO

Corporate | FYR 2017 | 31 January 2018



Additional Information and Disclaimer

Lonza Group Ltd has its headquarters in Basel, Switzerland, and is listed on the SIX Swiss Exchange. It has a secondary listing on the Singapore Exchange Securities Trading Limited (“SGX-ST”). Lonza Group Ltd is not subject to the SGX-ST’s continuing listing requirements but remains subject to Rules 217 and 751 of the SGX-ST Listing Manual.

Forward-looking statements contained herein are qualified in their entirety as there are certain factors that could cause results to differ materially from those anticipated. Any statements contained herein that are not statements of historical fact (including statements containing the words “outlook”, “guidance”, “believes,” “plans,” “anticipates,” “expects,” “estimates” and similar expressions) should be considered to be forward-looking statements. Investors are cautioned that all forward-looking statements involve risks and uncertainty.

There are a number of important factors that could cause actual results or events to differ materially from those indicated by such forward-looking statements, including the timing and strength of new product offerings; pricing strategies of competitors;

acceptable terms, or at all, and to continue to obtain sufficient financing to meet its liquidity needs; difficulty to maintain relationships with employees, customers and other business partners; and changes in the political, social and regulatory framework in which the company operates, or in economic or technological trends or conditions, including currency fluctuations, inflation and consumer confidence, on a global, regional or national basis.

In particular, the assumptions underlying Outlook 2018 and Mid-Term Guidance 2022 herein may not prove to be correct. The statements in Outlook 2018 and Mid-Term Guidance 2022 constitute forward-looking statements and are not guarantees of future financial performance. Lonza’s actual results of operations could deviate materially from those set forth in Outlook 2018 and Mid-Term Guidance 2022 as a result of the factors described above or other factors. Investors should not place undue reliance on the statements in Outlook 2018 and Mid-Term Guidance 2022. Except as otherwise required by law, Lonza disclaims any intention or obligation to update any forward-looking statements as a result of developments occurring after this report was made.



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Lonza Full-Year Results 2017 – Corporate Overview

Reporting record-breaking results

- Lonza exceeded its full-year 2017 guidance with Lonza standalone sales of CHF 4.6 billion, growing organically by 10.4% versus prior year, and 26.3% organic CORE EBIT growth
- Lonza including Capsugel reports sales of CHF 5.1 billion, 47.2% CORE EBIT growth and a CORE EBITDA margin of 24.8%
- Offerings along and beyond the healthcare continuum were growth drivers for both segments – Pharma&Biotech and Specialty Ingredients
- Capsugel acquisition closed on 5 July 2017; company integration is on track to deliver expected synergies and growth targets
- Lonza launched further growth projects including its innovative new concept in biological manufacturing and development Ibex™ Solutions in Visp (CH)
- At the Annual General Meeting, the Board of Directors will propose Board changes and a stable dividend for shareholders of CHF 2.75 per share for 2017, despite a 40.7% increase in share capital

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Full-Year 2017 Financial Highlights (Lonza Standalone)

Continuing Lonza's strong performance and organic growth

CHF million	2017	2016	% YoY
Sales	4,562	4,132	10.4
CORE EBITDA	1,091	918	18.8
<i>CORE EBITDA Margin</i>	<i>23.9%</i>	<i>22.2%</i>	
CORE EBIT	822	651	26.3
<i>CORE EBIT Margin</i>	<i>18.0%</i>	<i>15.8%</i>	
CORE RONOA	28.3%	21.5%	31.6

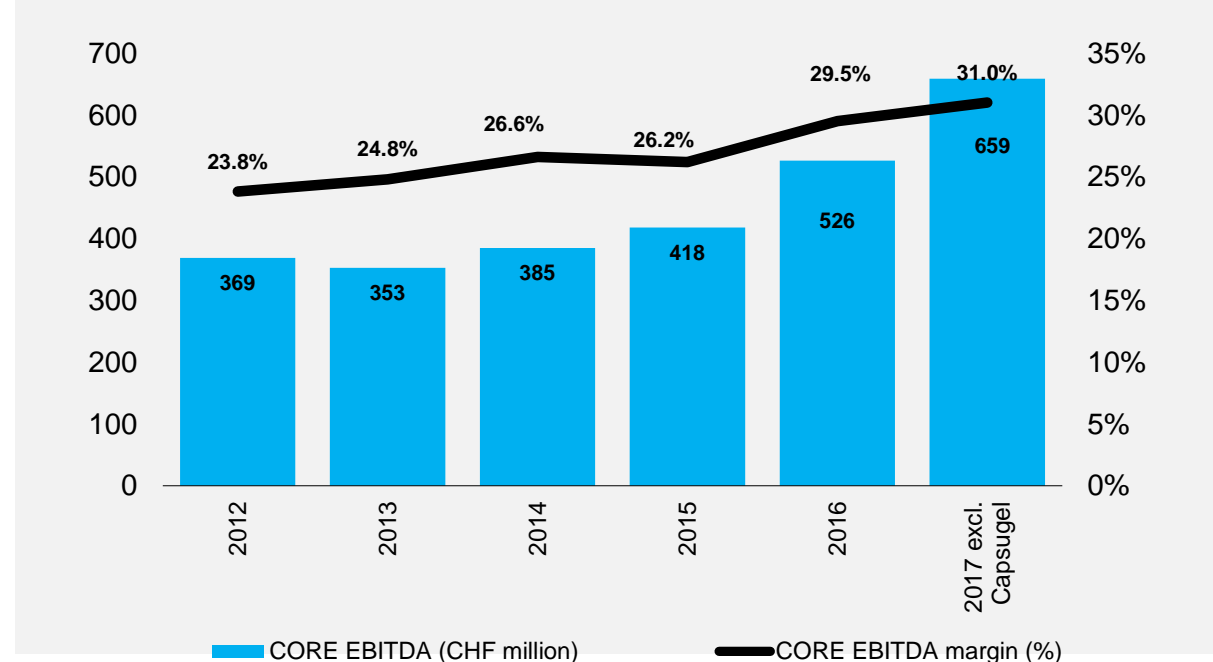
Full-Year 2017 Financial Highlights (Lonza Standalone)

Delivering improved profitability and organic growth along the healthcare continuum in both segments

Pharma&Biotech¹

¹2016 restated to reflect divestiture of peptides business (Sales CHF -32 million, favorable impacts on CORE EBIT CHF 12 million and CORE EBITDA CHF 6 million) and the transfer of a business from Pharma&Biotech to Specialty Ingredients (Sales CHF -30 million, unfavorable impacts on CORE EBIT CHF 11 million and CORE EBITDA CHF 11 million).

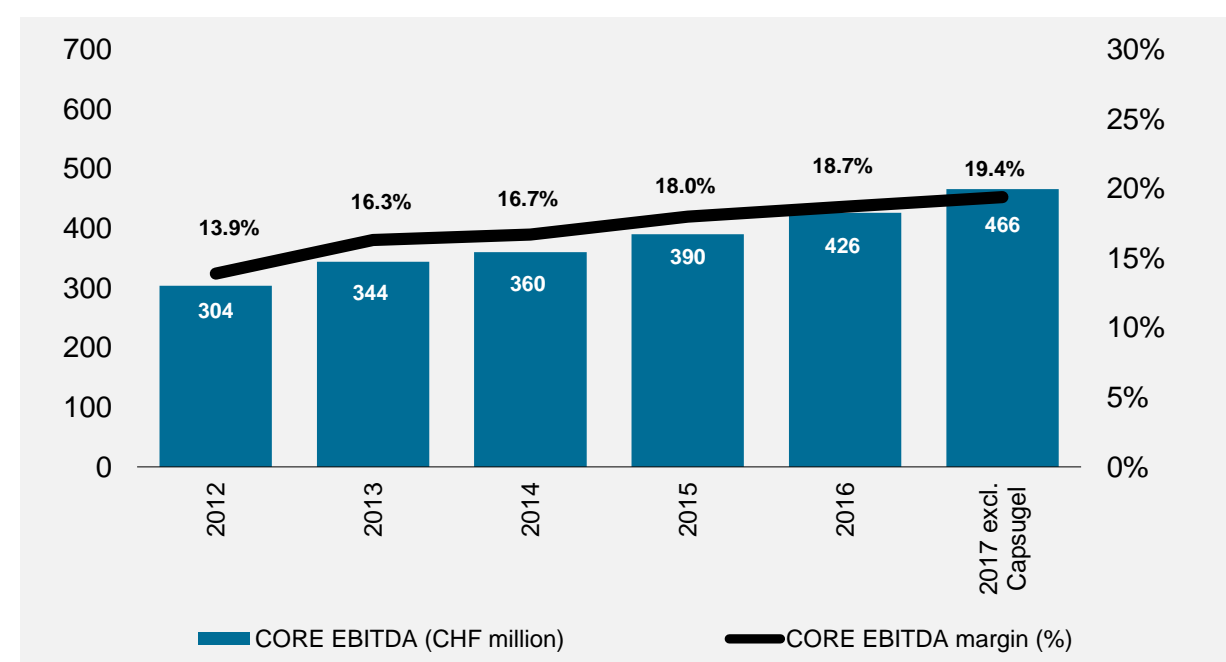
CHF million	2017	% YoY ¹
Sales	2,124	18.9
CORE EBITDA	659	25.3
<i>Margin</i>	31.0%	
CORE EBIT	530	31.8
<i>Margin</i>	25.0%	



Specialty Ingredients²

²2016 restated to reflect the transfer of a business from Pharma&Biotech to Specialty Ingredients (Sales CHF +30 million, favorable impacts on CORE EBIT CHF 11 million and CORE EBITDA CHF 11 million).

CHF million	2017	% YoY ²
Sales	2,400	5.2
CORE EBITDA	466	9.4
<i>Margin</i>	19.4%	
CORE EBIT	367	10.2
<i>Margin</i>	15.3%	



Full-Year 2017 Financial Highlights (including Capsugel)

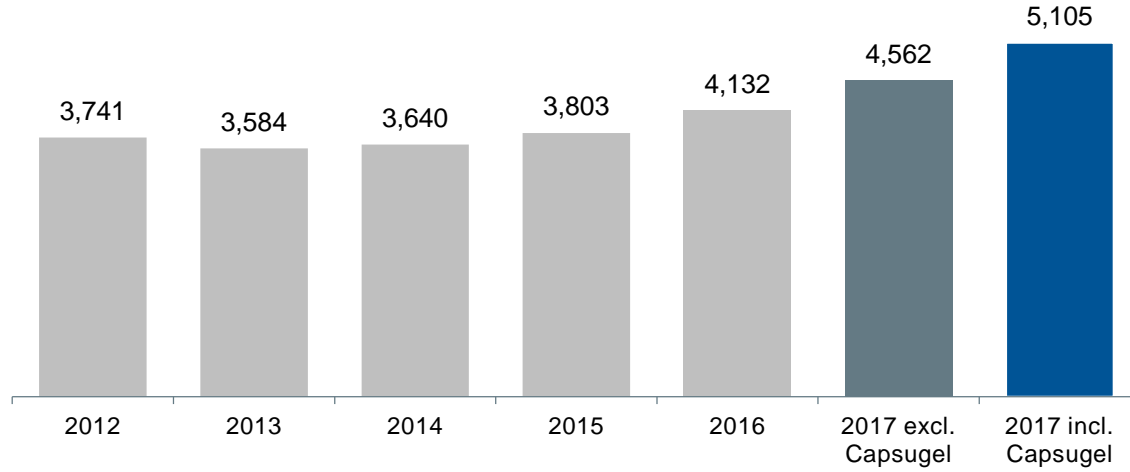
Demonstrating Capsugel already accretive to Lonza's profitability KPIs

CHF million	2017	2016	% YoY
Sales	5,105	4,132	23.5
CORE EBITDA	1,265	918	37.8
<i>CORE EBITDA Margin</i>	<i>24.8%</i>	<i>22.2%</i>	
CORE EBIT	958	651	47.2
<i>CORE EBIT Margin</i>	<i>18.8%</i>	<i>15.8%</i>	
CORE RONOA	29.1%	21.5%	35.3
Operational Free Cash Flow (before acquisitions)	619	638	(3.0)

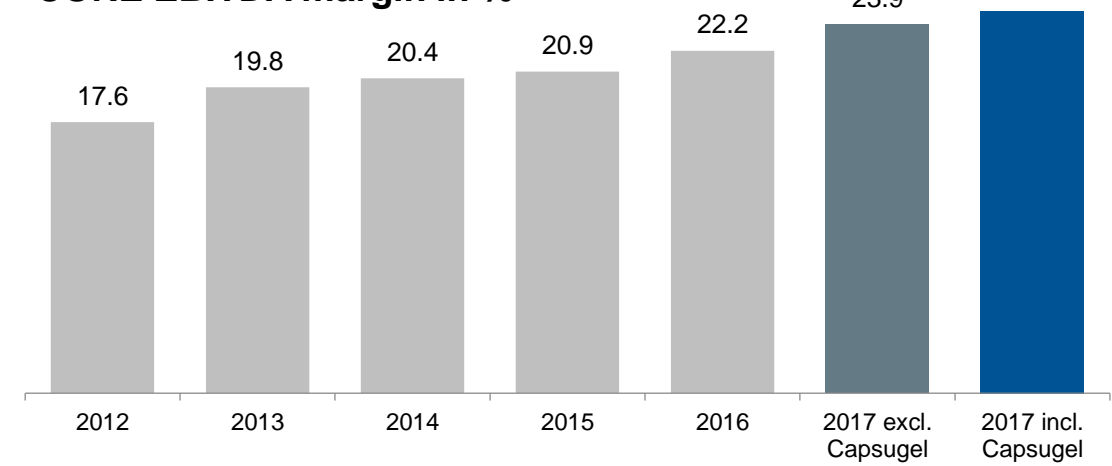
Steady and Continued Improvement

Exceeding guidance across all metrics

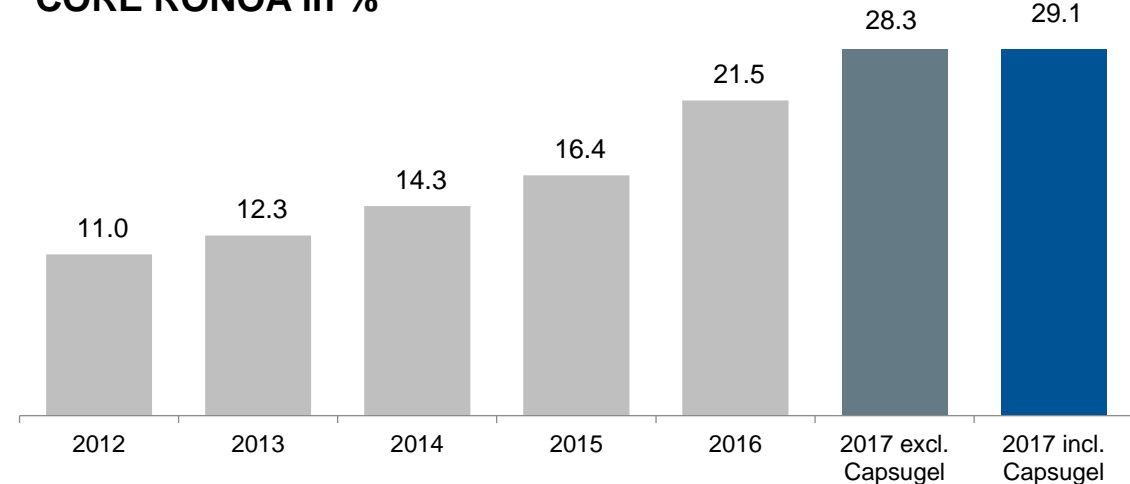
Sales in CHF million



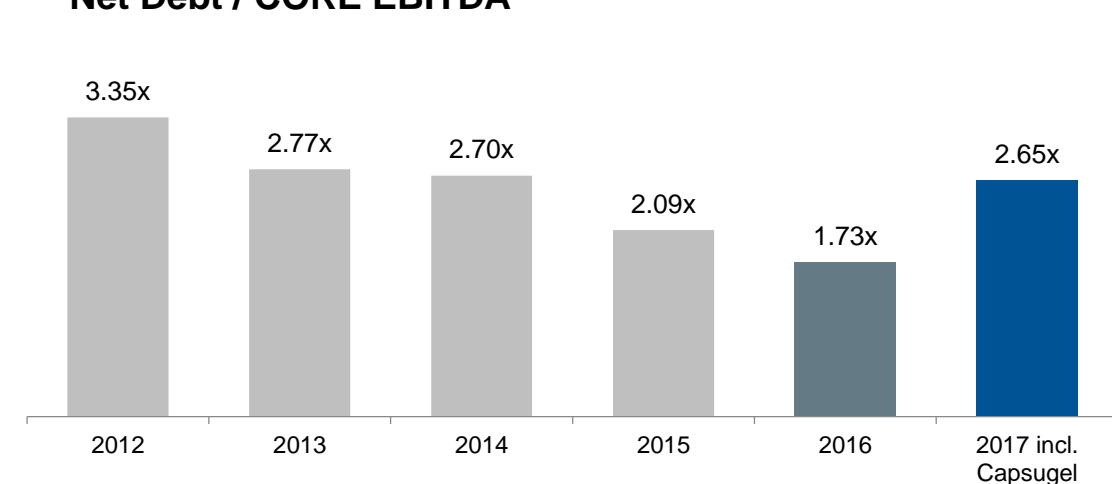
CORE EBITDA margin in %



CORE RONOA in %

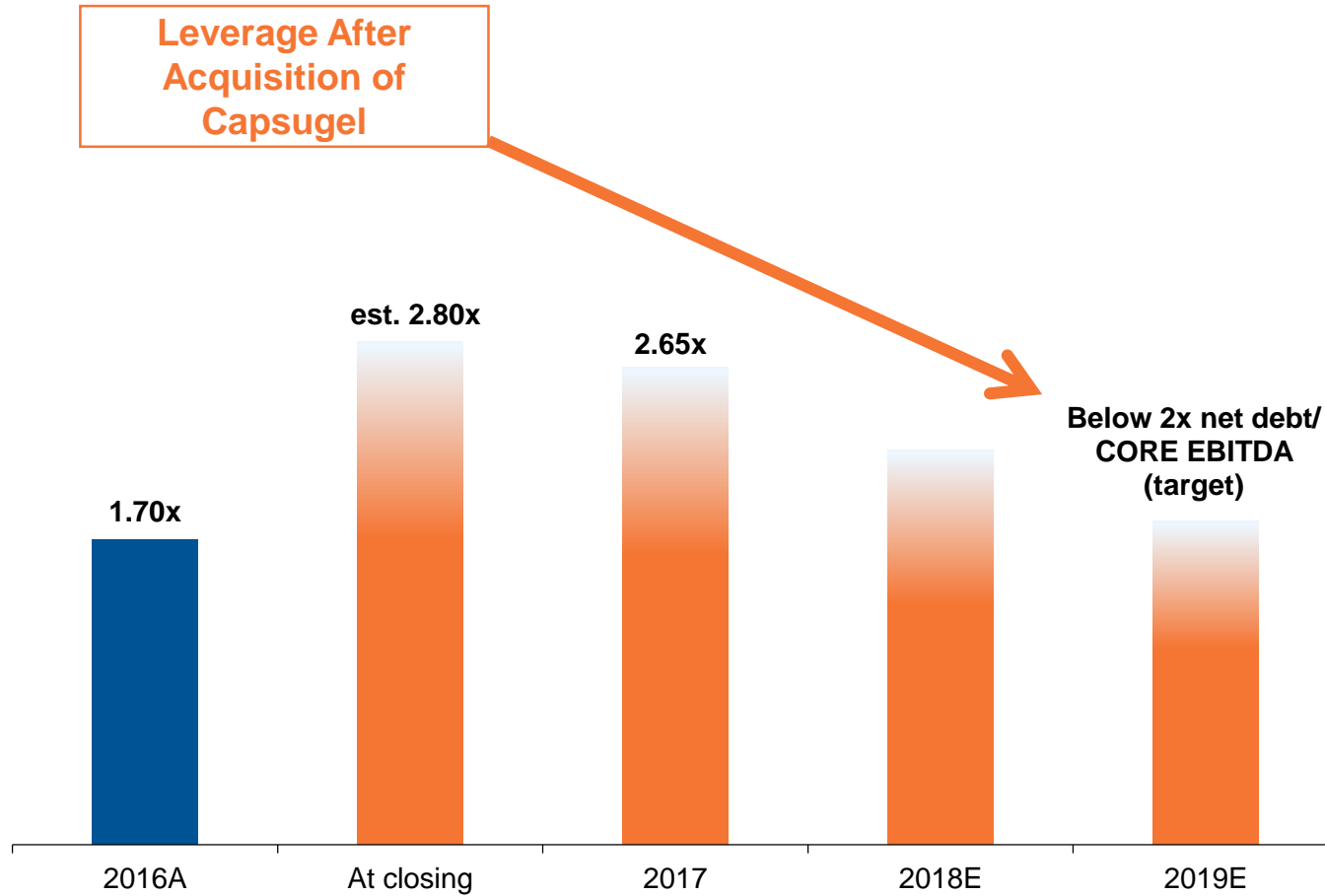


Net Debt / CORE EBITDA



Net Leverage 2017 to 2019 (expected)

Deleveraging quickly after closing of Capsugel acquisition



- Net debt reached CHF 3.8 billion end of 2017, resulting in a net debt/CORE EBITDA (proforma) ratio of 2.65x – a leverage level significantly below the previously communicated threshold of up to 3x net debt/CORE EBITDA
- Target to deleverage to below 2x net debt/CORE EBITDA level expected to be achieved in 2019, as originally announced

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Pharma&Biotech



CHF million	2017	2016 ¹	% YoY
Sales	2,124	1,786	18.9
CORE EBITDA	659	526	25.3
<i>Margin</i>	31.0%	29.5%	
CORE EBIT	530	402	31.8
<i>Margin</i>	25.0%	22.5%	

- Pharma&Biotech’s performance (Lonza standalone) hit an all-time high with:
 - Sales 18.9% up to CHF 2,1 billion and
 - CORE EBIT 31.8% up to 530 million compared with the same period last year
- Commercial excellence, strong operational execution and business model innovation were key performance drivers
- Pharma&Biotech saw high demand across all businesses with especially strong development in Commercial Mammalian and in Chemical Manufacturing, as well as in Clinical Development services
- Pharma&Biotech expects to continue to grow in 2018

¹Restated to reflect divestiture of peptides business (Sales CHF -32 million, favorable impacts on CORE EBIT CHF 12 million and CORE EBITDA CHF 6 million) and the transfer of a business from Pharma&Biotech to Specialty Ingredients (Sales CHF -30 million, unfavorable impacts on CORE EBIT CHF 11 million and CORE EBITDA CHF 11 million).

Pharma&Biotech

Capitalizing on high demand for Mammalian and Chemical Manufacturing

Commercial Manufacturing

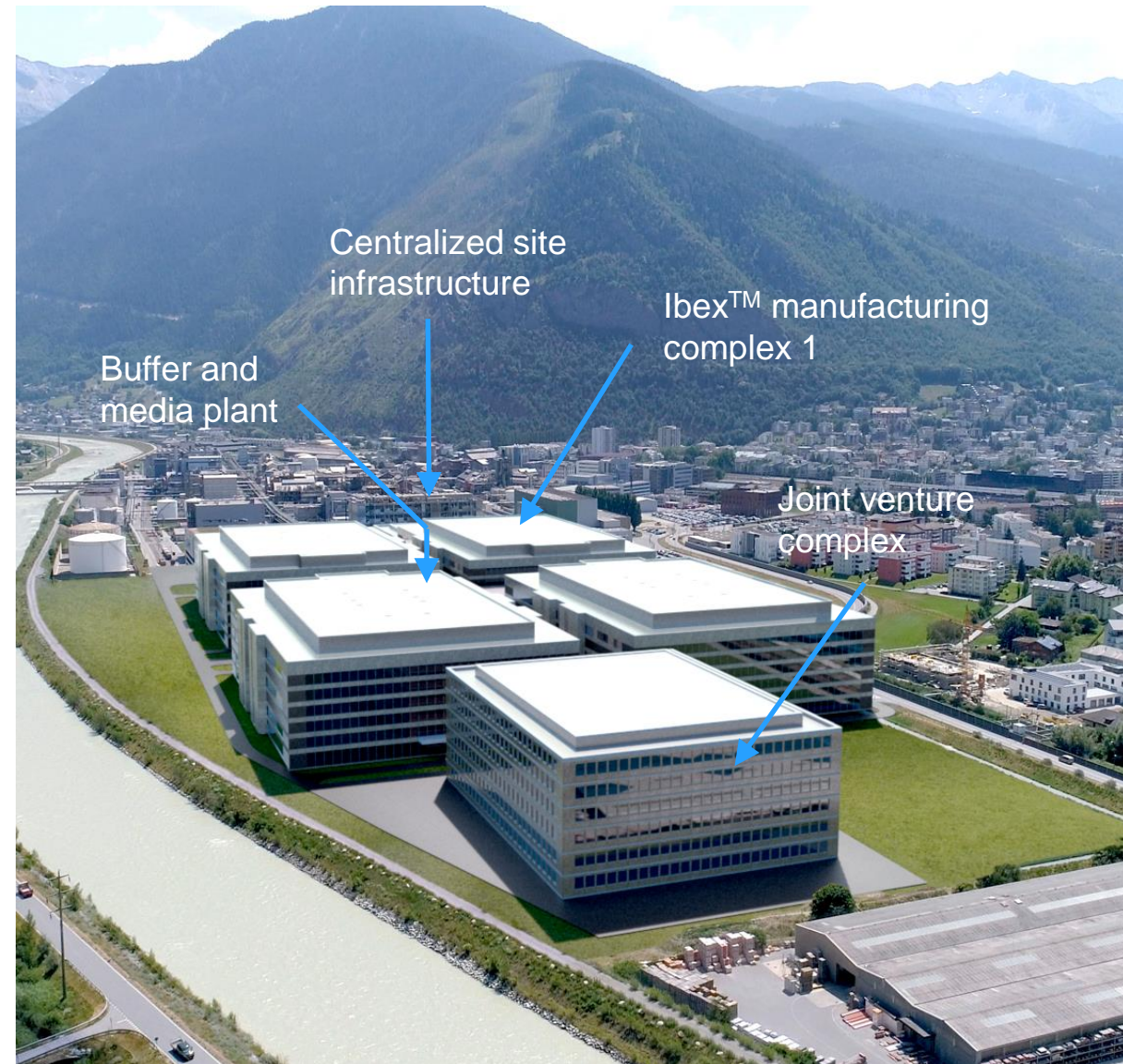
- High demand in **Mammalian Manufacturing** as one of the key drivers in the Pharma&Biotech segment's sales growth
- Continued to benefit from a balanced customer portfolio, ranging from large pharmaceutical companies to emerging biotech enterprises
- Diversified portfolio in 2017 by adding new growth products to the network for long-term business sustainability
- Capacity expansion is on track with projects in Portsmouth, NH (USA) and in Singapore (SG) under construction
- **Chemical Manufacturing** as another key driver behind Pharma&Biotech's strong results in 2017 with buoyant demand reflected in a high level of bookings, reaching into the medium term
- With the acquisition of Micro-Macinazione (CH) in combination with Quakertown, PA (USA) micronization services site from Capsugel, Lonza holds a leading position in contract micronization, to address market need for innovative bioavailability and solubility solutions



Lonza's Ibex™ Solutions Demonstrate Innovation in Business Models

Gaining traction in the marketplace as first customers sign agreements and construction continues as planned

- An extra 100,000 m2 (1,076,391 sq feet) available
- First groundbreaking in September 2017:
 - Joint venture between Sanofi and Lonza to build and operate a large-scale mammalian cell-culture facility for monoclonal antibody production
 - Another strategic agreement already signed: Portola Pharmaceuticals, Inc. to manufacture AndexXa®
 - Multiple ongoing discussions with customers
- Construction and build-out of JV complex and Ibex™₁ Manufacturing Complex 1 ongoing as planned with start of production expected at the end of 2019 and full operations in 2020
- [Ibex™ video](#)



Clinical Development and Manufacturing

- Clinical Development and Manufacturing continued to perform strongly
- Supported early-phase customers with their preclinical and clinical innovator molecules, followed by process development and clinical-phase manufacture, in mammalian, microbial and chemical product and service modalities
- Expanded mammalian manufacturing capacity in clinical development in Slough (UK) facility and acquired a new site in Hayward, CA (USA), to support increased market demand
- Experienced significant increase in interest for small-molecule containment capabilities, particularly for cytotoxic and highly potent active pharmaceutical ingredients (HPAPI) molecules
- Drug Product Services (DPS) team in Basel (CH) expanded; Capsugel's drug formulation team and Lonza's DPS team now form a strong basis for growing formulation services in small and large molecules



Pharma&Biotech

Expanding its offers in next-generation biologics adds to other growth drivers

Emerging Technologies

- Lonza's bio-conjugate, cell-and-gene-therapy business experienced continued strong customer interest driven by new regulatory approvals and positive market momentum
- Acquired PharmaCell BV (NL), a cell-and-gene-therapy contract manufacturer in Europe, to strengthen its offering and global footprint
- Acquisition adds to the ongoing construction of the world's largest dedicated cell-and-gene-therapy facility in Pearland, TX (USA), which is expected to come on-stream in Q1 2018



Bioscience Solutions / Products

- Bioscience Solutions experienced ongoing positive market demand
- Remediation efforts related to the production of certain biotherapeutic liquid media products – manufactured in one particular area of Walkersville, MD (USA), site that is used to produce <20 L containers – negatively affected the performance



Specialty Ingredients



Specialty Ingredients

Delivering strong results

CHF million	2017	2016 ¹	% YoY
Sales	2,400	2,281	5.2
CORE EBITDA	466	426	9.4
<i>Margin</i>	<i>19.4%</i>	<i>18.7%</i>	
CORE EBIT	367	333	10.2
<i>Margin</i>	<i>15.3%</i>	<i>14.6%</i>	

- Specialty Ingredients (Lonza standalone) delivered strong results with growth drivers along and beyond the healthcare continuum with:
 - Sales 5.2% up to CHF 2,4 billion and
 - CORE EBIT 10.2% up to 367 million compared with the same period last year
- Good progress driven not only by Consumer Care businesses, but also by further value creation achieved in the Coatings and Composites business, which includes Wood Protection, and in the Agro Ingredients business
- Operational and commercial excellence, portfolio optimization and innovation in niche businesses remain cornerstones going forward

²Restated to reflect the transfer of a business from Pharma&Biotech to Specialty Ingredients (Sales CHF +30 million, favorable impacts on CORE EBIT CHF 11 million and CORE EBITDA CHF 11 million).

Specialty Ingredients

Outstanding results in Consumer Health and Nutrition, as well as in Hygiene and Preservation

Consumer Care

- Consumer Care experienced another successful year with double-digit sales growth and contributed to Lonza's (standalone) full-year 2017 guidance
- Growth drivers were the Consumer Health and Nutrition, as well as the Hygiene and Preservation business
- Continued success of flagship ingredients Carnipure® L-Carnitine and UC-II® undenatured collagen, which helped to drive growth in Nutrition
- Launch of several new dietary supplement formulas with Lonza's ingredients addressing sports, mood, sleep, weight management and immunity powered by Capsugel's formulation and finished dosage forms expertise
- Hygiene and Preservation benefited from growth momentum in disinfection solutions in several markets throughout 2017 with ongoing high demand expected in this non-cyclical business based on changing regulatory requirements



Specialty Ingredients

Delivering strong sales growth in Coatings and Composites businesses

Coatings and Composites

- Growth drivers are environmentally sustainable and innovative technologies in response to customers' demands and the increasing challenges presented by the global regulatory landscape
- The launch of new methylisothiazolinone- (MIT-) free preservatives continued to draw strong customer interest, with commercial approvals ramping up into 2018
- Coatings and Composites reported overall strong sales growth, mainly in the electronics, marine anti-fouling, oil & gas and plastics market segments
- Wood Protection continued its improvement in 2017 despite facing challenges of a highly competitive market environment
- Within the Wood Protection business, engineered wood preservation and mold-control offerings saw particularly strong growth, and efforts have been ongoing to further optimize performance within these markets



Specialty Ingredients

Supporting strategic growth through portfolio strengthening

Agro and Animal Feed Ingredients

- Solid growth based on higher demand, especially in animal nutrition
- Progress was also made in the build-up of a niche portfolio for selected specialty crops with a range of agrochemical products and applications, based on Lonza's broad technology platforms in chemistry and biotechnology
- Geographic expansion, new label claims and new formulations are supporting the strategic growth in this business
- Fertilizer business, as a remnant of the "historic" chemicals business, will be closed down as the focus is on profitable growth in niche markets

Water Care

- Focus of Water Care was on the turnaround of the business with targeted and ongoing initiatives for strengthening both the residential and the industrial water businesses

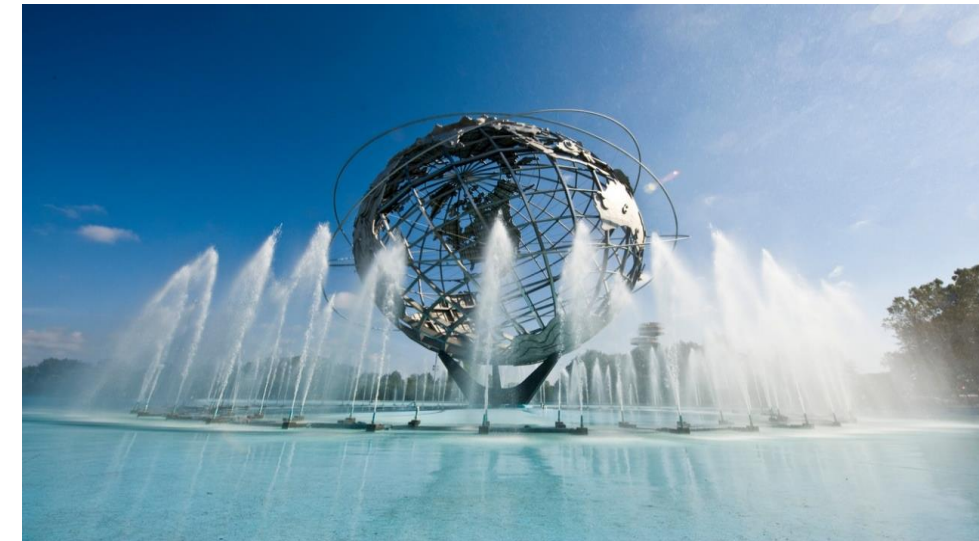


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Lonza Offers Customers an Integrated Approach

Expanding value-chain offerings and innovating in pharma and consumer health and nutrition markets

- Within Pharma&Biotech the integration of Capsugel has further strengthened the depth and breadth of Lonza's offerings for small molecules
- Lonza strives to become the partner of choice with an integrated approach along the entire value chain of drug product design, development and manufacturing
- Within Specialty Ingredients the integration of Lonza's nutritional ingredients and Capsugel's formulation and encapsulation capabilities combines expertise in high-quality, science-backed ingredients with formulation know-how and industry-leading capsule and encapsulation technologies
- Lonza creates innovative solutions for fast-growing preventive healthcare and nutrition markets
- In 2017 Capsugel performed in line with expectations with strong results in Consumer Health and Nutrition

Capsugel®

Now a **Lonza** Company



New Company Structure

Reporting differently to outside stakeholders by H1 2018

Pharma&Biotech

Capsule
Delivery
Solutions
Dosage Forms
& Delivery
Systems

Specialty Ingredients

Consumer Health

Consumer &
Resources
Protection

Water Care

Consumer
Health &
Nutrition

🔍 Capsugel integration in Lonza segments

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Outlook Full-Year 2018

Taking the next step toward achieving Lonza's Mid-Term Guidance 2022

Based on the sound foundation laid in 2017 for the future, and starting from a new baseline, Lonza (incl. Capsugel) is announcing the following outlook for 2018:

- **Mid-single-digit sales growth on a comparable basis in line with Mid-Term Guidance 2022**
- **100 bps improvement in CORE EBITDA margin in line with Mid-Term Guidance 2022**

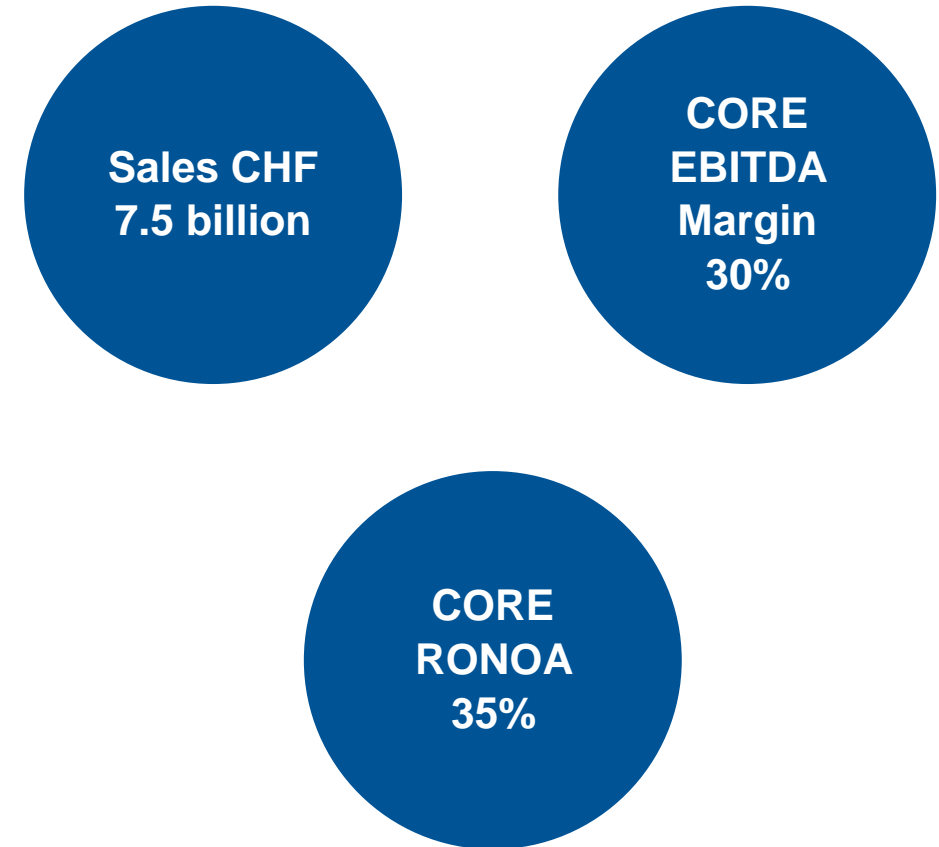
This outlook is based on the current business composition, the present macro-economic environment, current visibility and constant exchange rates for the most important currencies in which Lonza is trading.



Lonza Mid-Term Guidance 2022

Sustaining value creation

- Lonza expects to continue its sustainable growth along and beyond the healthcare continuum, to drive its position as a valued and preferred partner for its existing and new clients, and to grow through innovation
- Based on that expectation, Lonza (including Capsugel) confirms its Mid-Term Guidance until the end of 2022 – on the occasion of Lonza’s 125th anniversary
- Mid-Term Guidance 2022 is in line with target to deleverage to below 2x net debt/CORE EBITDA level at the end of 2019
- Smaller bolt-on acquisitions and revenue-secured CAPEX projects (e.g. Ibex™ Solutions) are fully included



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Events Calendar & Contacts

- 22 Mar 2018 Annual Report 2017 release (tentative)
- 4 May 2018 Annual General Meeting (AGM), Basel
- 4 May 2018 Q1 2018 Business Update
- 8 May 2018 Ex-Dividend Date
- 9 May 2018 Record-Dividend Date
- 11 May 2018 Dividend-Payment Date
- 25 July 2018 Half-Year Report 2018
- 24-26 Sep 2018 Capital Markets Day (Zurich, CH)



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Information about investor relations events is constantly updated on the website: <http://www.lonza.com/about-lonza/investor-relations>

Full-Year 2017 Financial Highlights

Presenting Full-Year 2017 results – Lonza (including Capsugel)

CHF million	2017	2016	Change YoY
Sales	5,105	4,132	23.5%
CORE EBITDA	1,265	918	37.8%
CORE EBITDA Margin	24.8%	22.2%	
CORE EBIT	958	651	47.2%
CORE EBIT Margin	18.8%	15.8%	
EBITDA	1,153	848	36.0%
EBITDA Margin	22.6%	20.5%	
EBIT	723	486	48.8%
EBIT Margin	14.2%	11.8%	
Financing Costs	(142)	(112)	
Tax Rate	(25.3)%	19.3%	
Profit for the Period	728	301	141.9%
EPS (CHF) Basic	10.70	5.31 ¹	101.5%
EPS (CHF) Basic CORE	11.84	7.81 ¹	51.6%
Operational Free Cash Flow (before acquisition)	619	638	(3.0)%
Operational Free Cash Flow	(2,691)	408	(759.6)%
Change in Net Working Capital	(41)	78	
Capital Expenditures	(451)	(366)	23.2%
CORE RONO A	29.1%	21.5%	35.3%
Net Debt	3,762	1,584	137.5%
Number of Employees	14,618	10,130	44.3%

¹As a consequence of the capital increase of 10 May 2017, the calculation of the earnings per share and the diluted earnings per share have been adjusted by the factor resulting from the rights offering.



Full-Year 2017 Financial Highlights

Presenting Full-Year 2017 results – Lonza (Standalone)

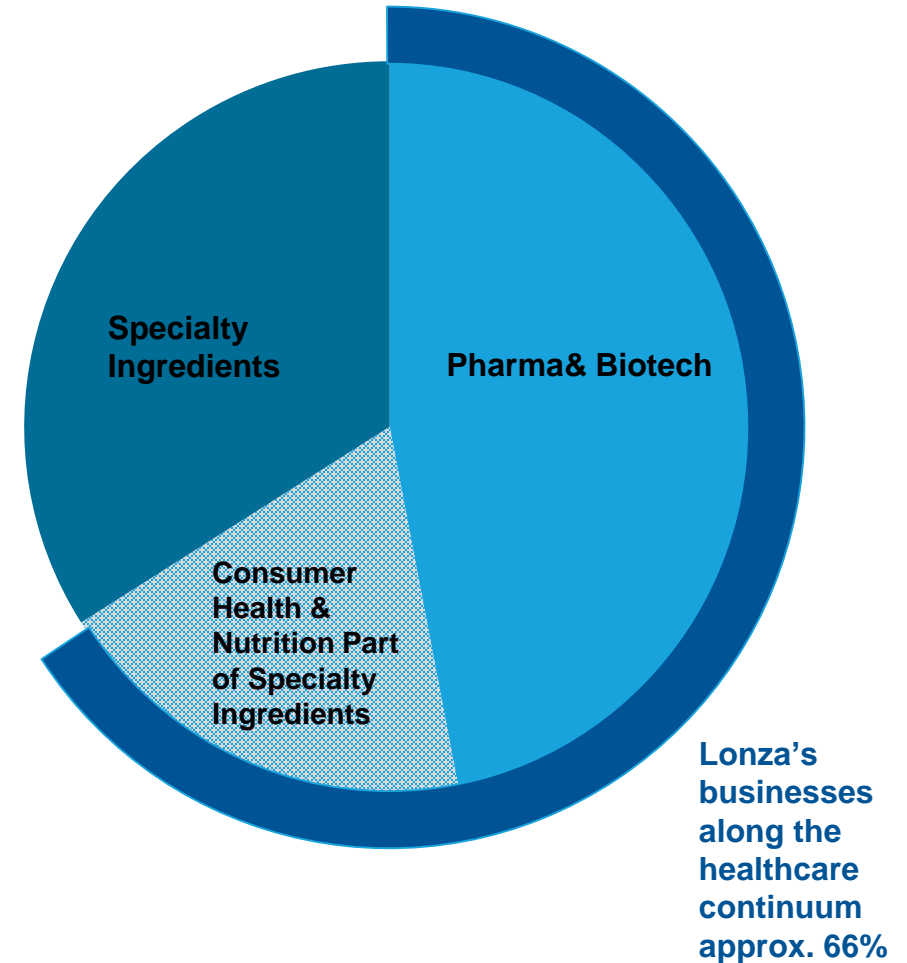
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EBIT	728	486	49.8%
<i>EBIT Margin</i>	<i>16.0%</i>	<i>11.8%</i>	
CORE RONOA	28.3%	21.5%	31.6%
Number of Employees	10,980	10,130	8.4%



Update on Capsugel Integration

Confirming positive outlook for Capsugel

- After the successful closing of the acquisition of Capsugel on 5 July 2017, the post-deal integration began immediately
- On 1 January 2018, business and functional integration was completed with Capsugel being fully integrated into the Lonza structure
- Commercial integration is also progressing with first joint-product offerings in consumer health and nutrition and positive customer response to the combined Lonza-Capsugel value proposition
- Capsugel has been integrated in both Lonza segments – Pharma&Biotech and Specialty Ingredients
- The focus is now on bringing in expected commercial synergies in both segments with CHF ~100 million p.a. top-line synergies to be achieved by year five as already communicated



Capital Measures in 2017

Financing Capsugel successfully through a combination of equity and debt instruments

■ Equity financing

- ABB of CHF 865 million in February 2017, having de-risked the transaction early
- Successfully completed discounted rights offering of CHF 2.3 billion in May 2017 (16,548,612 newly issued shares)

■ Debt financing

- Balance of acquisition price was financed through indebtedness including USD 1 billion term loan and USD 1.4 billion bridge loan facility
- Bridge has already been refinanced (end of December 2017)
- Dual tranche CHF 235 million straight bonds issued in July 2017 (4-Year Bond: CHF 125 million, coupon 0.2%; 7-Year Bond: CHF 110 million, coupon 0.7%)
- Pricing of EUR 700 million (4 & 6 years) and USD 200 million (5 & 7 years) multi-tranche “Schuldschein” loan in August 2017 with fixed and variable coupons
- Placement of a USD 100 million, 7-Year Tranche “Schuldschein” loan in December 2017

CORE Results as Defined by Lonza

Lonza believes that disclosing CORE results of the Group's performance enhances the financial markets' understanding of the company because the CORE results enable better comparison across years.

Therefore, the CORE results exclude exceptional expenses and income related to e.g. restructuring, environmental-remediation, acquisitions and divestitures, 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 internally assessing the Group's performance.

On pages 19-20 of Lonza's 2017 Full-Year Results Report, the reconciliation of IFRS to CORE results provides further details on the adjustments.