Enabling a Healthier World

Lonza

Alternative Performance Measures

Half-Year 2022

Introduction

This Finance Report and other communications with investors and analysts includes 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	○	●
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 event[1]:

- Restructuring income and expenses,
- Environmental-related income and expenses (related to historical environmental issues only),
- Acquisition and divestiture related income and expenses,
- Impairments and reversals of related impairments,
- 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 Half-Year 2022 and 2021 is as follows:

Million CHF	2022	2021
Profit from continuing operations	**498**	**263**
Environmental remediation expenses[2]	22	289
Litigations[3]	31	0
Contingent consideration expense from sale of businesses[4]	0	1
Tax effect[5]	(8)	(32)
CORE Profit from continuing operations	**543**	**521**
CORE Profit from continuing operations attributable to equity holders of the parent	**541**	**519**
CORE Earnings per share attributable to equity holders of the parent	**7.29**	**6.99**

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 In 2021, environmental remediation expenses predominantly relate to Gamsenried (CH). Refer to note 6 disclosed in the Selected Explanatory Notes of the Half-Year Report 2021
3 Litigation related to a Lonza legacy site / business
4 Negative impact from fair value adjustment on contingent purchase price consideration from the sale of the former Peptide business
5 Group tax rate on continuing operations of 16.2% for 2022 and 11.2% for 2021

Earnings before interest, tax, depreciation and amortization (EBITDA) from Continuing Operations

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

Million CHF	2022	2021
Result from operating activities (EBIT)	**645**	**317**
Depreciation of property, plant and equipment	195	162
Amortization of intangible assets	94	86
Impairment and reversal of impairment on property, plant, equipment and intangibles	0	(7)
Earnings before interest, taxes and depreciation (EBITDA)	**934**	**558**

Million CHF	2022	2021
Earnings before interest, taxes and depreciation (EBITDA)	**934**	**558**
Environmental-related expenses[1]	22	289
Litigations[2]	31	0
CORE EBITDA	**987**	**847**

1 In 2021, environmental remediation expenses predominantly relate to Gamsenried (CH). Refer to note 6 disclosed in the Selected Explanatory Notes of the Half-Year Report 2021
2 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 (Continuing Operations)

Million CHF	2022	2021	Change in %
Sales	**2'982**	**2'542**	**17.3**
Retranslation at prior year rates	(13)		
Sales in constant currency	**2'969**		**16.8**
CORE EBITDA	**987**	**847**	**16.5**
Retranslation at prior year rates	(10)		
CORE EBITDA in constant currency	**977**		**15.3**
Margin in %	32.9		

Biologics

Million CHF	2022	2021	Change in %
Sales	**1'625**	**1'284**	**26.6**
Retranslation at prior year rates	(4)		
Sales in constant currency	**1'621**		**26.2**
CORE EBITDA	**606**	**490**	**23.7**
Retranslation at prior year rates	(11)		
CORE EBITDA in constant currency	**595**		**21.4**
Margin in %	36.7		

Small Molecules

Million CHF	2022	2021	Change in %
Sales	**288**	**362**	**(20.4)**
Retranslation at prior year rates	(3)		
Sales in constant currency	**285**		**(21.3)**
CORE EBITDA	**86**	**99**	**(13.1)**
Retranslation at prior year rates	0		
CORE EBITDA in constant currency	**86**		**(13.1)**
Margin in %	30.2		

Cell & Gene

Million CHF	2022	2021	Change in %
Sales	**344**	**274**	**25.5**
Retranslation at prior year rates	(6)		
Sales in constant currency	**338**		**23.4**
CORE EBITDA	**77**	**44**	**75.0**
Retranslation at prior year rates	0		
CORE EBITDA in constant currency	**77**		**75.0**
Margin in %	22.8		

Capsules and Health Ingredients

Million CHF	2022	2021	Change in %
Sales	**625**	**602**	**3.8**
Retranslation at prior year rates	1		
Sales in constant currency	**626**		**4.0**
CORE EBITDA	**220**	**213**	**3.3**
Retranslation at prior year rates	0		
CORE EBITDA in constant currency	**220**		**3.3**
Margin in %	35.1		

Corporate

Million CHF	2022	2021
Sales	**100**	**20**
Retranslation at prior year rates	(1)	
Sales in constant currency	**99**	
CORE EBITDA	**(2)**	**1**
Retranslation at prior year rates	1	
CORE EBITDA in constant currency	**(1)**	

Liquidity and Capital Measures

Lonza Group (incl. Discontinued Operations)

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	30 June 2022	31 December 2021	Change
Non-current debt	1'947	2'234	(287)
Current debt	456	169	287
Total debt	**2'403**	**2'403**	**0**
Non-current loans and advances	(189)	(177)	(12)
Short-term investments	(909)	(1'602)	693
Cash and cash equivalents	(1'526)	(1'582)	56
Total cash and cash equivalents, short term investments and loans and advances	**(2'624)**	**(3'361)**	**737**
Net debt / (net cash)	**(221)**	**(958)**	**737**

	30 June 2022	31 December 2021
Net debt / (cash) / CORE EBITDA Ratio[1]	(0.12)	(0.58)[2]
Debt / Equity Ratio	(0.02)	0.09

1 Net debt / CORE EBITDA is calculated based on the CORE EBITDA of the last twelve months
2 Ratio calculated on continuing operations for the year 2021. This ratio calculated on Total Lonza Group would result in a ratio of (0.53)

Return On Invested Capital (ROIC) from Continuing Operations

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 six-months period ended 30 June

Million CHF	2022	2021
Result from operating activities (EBIT)	**645**	**317**
Share of result of associates / joint ventures	1	0
CORE adjustments		
Environmental remediation expenses[1]	22	289
Litigations[2]	31	0
Net operating profit before taxes	**699**	**606**
Taxes[3]	(113)	(67)
Net operating profit after taxes (NOPAT)	**586**	**539**
Net operating profit after taxes (NOPAT), annualized[4]	**1'172**	**1'078**
Average invested capital	**10'050**	**9'382**
ROIC in %	**11.7**	**11.5**

1 In 2021, environmental remediation expenses predominantly relate to Gamsenried (CH). Refer to note 6 disclosed in the Selected Explanatory Notes of the Half-Year Report 2021
2 Litigation related to a Lonza legacy site / business
3 Group tax rate on continuing operations of 16.2% for 2022 and 11.2% for 2021
4 NOPAT for the six months ended 30 June multiplied by 2 to reflect a twelve month period

Components of average invested capital for the six-months period ended 30 June

Million CHF	2022	2021
Intangible assets	2'434	2'621
Property, plant & equipment	5'041	3'810
Goodwill	2'981	3'109
Inventories	1'692	1'277
Trade receivables	931	739
Other operating receivables	289	308
Other assets	195	264
Trade payables	(458)	(352)
Other operating liabilities	(2'574)	(1'712)
Net current and deferred tax liabilities	(481)	(682)
Average invested capital	**10'050**	**9'382**

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. However, for Half-Year 2021, Lonza concluded to adjust for the one non-cash transaction (Gamsenried environmental provision) which would have otherwise significantly distorted the Half-Year 2021 operational free cashflow.

Components of Operational Free Cash Flow[1]

Million CHF	2022	2021	Change
Earnings before interest, taxes and depreciation (EBITDA)	**927**	**656**	**271**
Change of operating net working capital	(492)	(280)	(212)
Capital expenditures in tangible and intangible assets	(841)	(516)	(325)
Disposal of tangible and intangible assets	(1)	6	(7)
Change of other assets and liabilities	70	106	(36)
Gamsenried environmental remediation cost[2]	0	284	(284)
Operational free cash flow (before acquisitions / divestitures)	**(337)**	**256**	**(593)**
Acquisition of subsidiaries	(4)	0	(4)
Disposal of subsidiaries[3]	0	120	(120)
Operational free cash flow	**(341)**	**376**	**(717)**

1 Operational Free Cash Flow represents Lonza Group incl. Discontinued Operations
2 Refer to note 6 disclosed in the Selected Explanatory Notes of the Half-Year Report 2021
3 In 2021, proceeds from sale of Softgel Liquid-filled hard capsule divested business

30–31 August 2022
Roadshow, Jefferies, London

2 September 2022
Roadshow, ZKB, Zurich

14–15 September 2022
Roadshow, Bank of America,
New York & Boston

28 September 2022
Citi European Healthcare Bus Tour

25 January 2023
Full-Year Results 2022

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.

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