
Lonza on Track to Deliver Full-Year 2019 Results, Driven by Pharma Biotech Business

- Double-digit sales growth delivered by Pharma Biotech & Nutrition (LPBN) segment
- H1 headwinds in Specialty Ingredients (LSI) segment, showing first signs of recovery
- New LPBN projects confirmed with Alector, AstraZeneca, Gamida Cell, and several other biopharmaceutical partners globally
- Cell and Gene Technologies, in particular, with strong inflow of new clinical and commercial contracts
- Softer performance of Consumer Health & Nutrition business
- LSI carve-out progressing on time and on budget

Quote from Lonza Group CEO Marc Funk:

"Our Half-Year results leave us confident that Lonza is on track to deliver on our Full-Year 2019 outlook. The strong momentum in our Contract Development and Manufacturing Organization (CDMO) businesses continues to drive our financial performance. Challenges in other parts of the business are being addressed. We are already working to deliver a recovery in the performance of the Specialty Ingredients segment. Our focus is supported by the carve-out program, which has already provided some improved transparency on cost and profitability."

"Our segment realignment earlier in the year has given Specialty Ingredients greater autonomy to push towards a leadership position in microbial control. Concurrently, Pharma Biotech & Nutrition maintains positive momentum as a major player in Life Sciences. Our targeted, high-return growth projects are progressing as planned and the strength of our current market position is validated by the number of confirmed strategic contracts."

Basel, Switzerland, 24 July 2019 – Lonza today reported continued positive momentum in its core healthcare businesses in the first six months of 2019. This has driven 6.4% sales and 7.7% CORE EBITDA growth for the group, resulting in a CORE EBITDA margin of 27.8%. Based on H1 2019 results, Lonza confirms the Full-Year 2019 outlook of mid-to-high single-digit sales growth and a sustained CORE EBITDA margin.

Half-year performance was driven by Lonza's Pharma Biotech & Nutrition segment achieving 10.8% sales growth and a 33.2% CORE EBITDA margin in an important investment year.

Financial Summary (Continuing Business)

CHF million	HYR 2019	% YoY	HYR 2018 (Restated) ¹
Sales ²	2,976	6.4	2,796
CORE EBITDA ³	828	7.7	769
Margin in % ³	27.8	30 bps	27.5
CORE EBIT ⁴	643	7.0	601
Margin in % ⁴	21.6	10 bps	21.5
CORE Profit for the Period	520	9.5	475
CORE EPS Basic (CHF)	7.00	10.1	6.36
CORE EPS Diluted (CHF)	6.96	10.1	6.32
ROIC in %	9.4	13.3	8.3
CORE RONO in %	30.8	(5.2)	32.5
Operational Free Cash Flow	555	58.1	351
Net debt	3,334	(10.3)	3,715
Net debt / CORE EBITDA ratio (last twelve-month basis)	2.12	(15.9)	2.52

¹ Restated to reflect the classification of Water Care business as discontinued operations (see note 5 of [Half-Year Results 2019 Report](#)). Prior year information has not been restated to reflect the adoption of IFRS 16 (see note 2 of [Half-Year Results 2019 Report](#)).

² Currency exchange effects had 30bps positive impact on actual exchange rate (AER) results. Further information about constant exchange rates (CER) is displayed in the [Half-Year Results 2019 Report](#).

³ IFRS 16 accounting adjustment on leases had a positive CORE EBITDA impact of CHF 14 million in H1 2019 (40 bps positive CORE EBITDA margin impact).

⁴ IFRS 16 accounting adjustment on leases had a positive CORE EBIT impact of CHF 2 million in H1 2019 (10 bps positive CORE EBIT margin impact).

The Specialty Ingredients segment reported a 3.8% decline in sales in H1 2019. However, the CORE EBITDA margin increased by 20bps to 19%, despite headwinds caused by raw material price increases, supply chain challenges and negative cyclical impacts.

All figures relate to Lonza's continuing operations (excluding the Water Care business unit) in reported currency and are compared with the same period in 2018 on a like-for-like basis ([restated Lonza Half-Year 2018 financial results](#)) to reflect adoption of IFRS 15 on revenue from contracts with customers and realignment of segments). Positive development of CORE EBITDA was also supported by the IFRS 16 accounting adjustment on leases, resulting in 40bps incremental margin for Lonza Group.

Pharma Biotech & Nutrition Segment

Lonza Pharma Biotech & Nutrition achieved double-digit sales growth. The newly formed segment, now including the Consumer Health & Nutrition business (formerly part of Specialty Ingredients), delivered CHF 2.1 billion sales in H1 2019 and a CORE EBITDA of CHF 693 million while investing in strategic growth projects.

Financial Summary Pharma Biotech & Nutrition

CHF million	HY 2019	% YoY	HY 2018 (Restated) ⁵
Sales ⁶	2,088	10.8	1,884
CORE EBITDA ⁷	693	9.7	632
Margin in % ⁷	33.2	(30 bps)	33.5

CDMO Services Businesses

Mammalian and microbial clinical and commercial offerings performed strongly in H1 2019 with batch releases ahead of schedule for the year. Lonza saw continued high demand for its development activities across all technologies in Visp (CH), Slough (UK) and Hayward (CA, USA) with further visibility into 2021, which is unusual for clinical programs. Lonza's Drug Product Services (DPS) continue to expand ahead of plan, responding to positive demand from customers. To complement its existing development services with sterile fill and finish of drug product for commercial launch, Lonza entered into a binding commitment to [acquire](#) a Novartis facility for drug product manufacturing in the Basel (CH) area.

⁵ Restated to reflect the 2019 realignment of Lonza's segments into Pharma Biotech & Nutrition and Specialty Ingredients. Prior year information has not been restated to reflect the adoption of IFRS 16 (see note 2 of [Half-Year Results 2019 Report](#)).

⁶ Currency exchange effects had 50bps positive impact on actual exchange rate (AER) results. Further information about constant exchange rates (CER) is displayed in the [Half-Year Results 2019 Report](#).

⁷ IFRS 16 accounting adjustment on leases had a positive CORE EBITDA impact of CHF 11 million in H1 2019 (50 bps positive CORE EBITDA margin impact).

Cell and gene technologies experienced continued momentum in a dynamic market environment. There is strong interest in Lonza's technology offerings and its comprehensive service portfolio, including process development and commercial manufacturing capacity. A high volume of enquiries for viral vector production and cell therapies (autologous and allogeneic, including virally modified cell therapy) continue to come from both emerging biotech and large pharma companies, resulting in a strong sales pipeline and new clinical and commercial contracts signed in H1 2019. Cell and gene technologies is working to further improve profitability.

The **Small-molecule** business benefitted from Lonza's highly potent active pharmaceutical ingredient (HPAPI) offerings with several new customers signed. A focus on end-to-end services for the growing pre-clinical and clinical market saw the [launch](#) of a new offer designed to accelerate the path to first-in-human studies for the increasing number of molecules with bioavailability challenges. In addition, Lonza completed the [expansion](#) of its solid oral dose development and manufacturing capabilities and capacity at its Tampa (FL, USA) site. Specialty polymer offerings in pharma hard capsules saw ongoing demand. Several long-term agreements were signed, and [new offerings](#) launched, for hard capsules and dosage form & development services, both supported by Lonza-Capsugel's combined capabilities.

The **Bioscience** business, which offers research tools and biomanufacturing equipment, performed well based on media sales, the continued expansion of its quality control software offerings, product supply recovery and the positive impact of new products launched, (including robotic solutions for [endotoxin testing](#)).

Continuing investment in full life cycle offerings and next-generation therapies

All investments in Lonza's strategic areas for future growth *Full-Life Cycle Management*, *Handling of Complex Molecules* and *Commercialization of Cell and Gene Technologies* are progressing as planned. New projects were confirmed in H1 2019 with [Alector](#), [AstraZeneca](#), [Gamida Cell](#), and several other biopharmaceutical partners globally.

Lonza today confirmed the [expansion](#) of its bioconjugation facilities in Visp (CH), together with the successful commercial approval of a third antibody-drug conjugate (ADC) produced at this site. With eleven investigational new drugs (INDs) completed, and now three out of five commercially available ADCs supported by its bioconjugation facility, Lonza sees the need to further expand based on commitments from customers signed. Many bioconjugates are on expedited programs and the existing expertise at the facility, combined with proximity to clinical and commercial manufacturing of antibody, linkers and payload, will reduce risk and increase speed on the path to market for Lonza customers.

CAPEX for Lonza Group amounted to CHF 308 million in H1 2019. A high proportion of this was spent for strategic growth projects, which are on track to support customers with innovative solutions. Most projects are coming online end of 2020 and in 2021 with a gradual ramp-up. Projects are mainly expected to contribute to continued growth in Pharma Biotech & Nutrition beyond the Mid-Term Guidance 2022. LPBN continues to focus on strong execution for these growth projects with talent acquisition geared towards H2 2019 and 2020. Further high-return, commercially de-risked projects are under consideration.

Consumer Health & Nutrition

Consumer Health & Nutrition performed below expectations against a strong year-on-year comparable base. Ingredient sales were marginally softer, driven by customer inventory pre-build in 2018 and subsequent Lonza supply challenges. Additional capacity is coming on stream within the existing footprint in 2019, with significant expansion starting mid-2020 from its Greenwood, (SC, USA) facility. Nonetheless, Lonza's premium science-backed UC-II® ingredient for joint health successfully entered new markets, regions, and applications, and Carnipure® L-Carnitine ingredient for sports nutrition performed strongly.

Positive market momentum for specialty polymer capsules continues, although demand for gelatin hard capsules has softened across regions. Lonza focuses on innovative dosage form and delivery solutions, benefiting from the optimization of Lonza-Capsugel synergies, and on further developing its specialty polymer offerings. Several product launches for clean-label and natural capsules were introduced to the market in Q2 2019 including [Vcaps® Plus White Opal™](#), a plant-based, titanium dioxide-free capsule. Consumer Health & Nutrition focuses on commercial initiatives with a stronger H2 compared to H1 2019 expected.

Specialty Ingredients Segment

The newly aligned Specialty Ingredients (LSI) segment provides microbial-control offerings across various consumer and industrial markets as well as composites and fine chemicals. As noted in the Q1 Qualitative Update, it continued to face headwinds, in line with the broader sector.

Financial Summary Specialty Ingredients

CHF million	HY 2019	% YoY	HY 2018 (restated) ⁸
Sales ⁹	859	(3.8)	893
CORE EBITDA ¹⁰	163	(3.0)	168
Margin in % ¹⁰	19.0	20 bps	18.8

Sales amounted to CHF 859 million in H1 2019, a 3.8% decline compared to a strong H1 2018. CORE EBITDA reached CHF 163 million, resulting in a robust 19% CORE EBITDA margin by industry comparison – a 20bps increase compared to the same period last year. Profit margins were maintained as raw material price increases were partly passed on to customers and LSI overhead cost control measures have started to gain traction.

⁸ Restated to reflect the 2019 realignment of Lonza's segments into Pharma Biotech & Nutrition and Specialty Ingredients, as well as the classification of Water Care business as discontinued operations. Prior year information has not been restated to reflect the adoption of IFRS 16 (see note 2 of [Half-Year Results 2019 Report](#)).

⁹ Currency exchange effects had 10bps negative impact on actual exchange rate (AER) results. Further information about constant exchange rates (CER) is displayed in the [Half-Year Results 2019 Report](#).

¹⁰ IFRS 16 accounting adjustment on leases had a positive CORE EBITDA impact of CHF 2 million in H1 2019 (30 bps positive CORE EBITDA margin impact).

Home Care Disinfection (primarily in China and North America) and Professional Hygiene offerings continued to experience healthy demand and performed above the same period last year. Personal Care Preservation reported softer sales, caused by increased competitive pressure and lower demand, especially in skin and hair care.

Sales for microbial-control offerings in industrial and agricultural markets were below the same period last year, negatively impacted by continued supply shortage of the key raw material BIT (1,2-Benzisothiazolin-3-one). BIT supply was significantly constrained in Q2 2019 after the closure of a chemical park in the Yancheng area in China, where the world's largest producer of a precursor for BIT was closed down. The difficulties of sourcing BIT and supplying customers impacted the segment's top-line performance. Lonza is on track to re-establish supply through diversification of its vendor base into new geographies including India, while uncertainties persist regarding BIT supply out of China.

The Wood Protection business performed solidly in H1 2019 despite weather-related challenges in North America (one of the key markets). The composites business was negatively affected by soft demand for electronics applications, especially out of Asia. The agricultural business is still suffering from customers' destocking after a dry European summer in 2018, various supply chain challenges, competitive pressure and increasing feedstock cost. Also, the markets in Australia and New Zealand were affected by a drought in H1 2019. Nonetheless, the agrochemical Contract Manufacturing Organization (CMO) business benefitted from increased demand in Q2 2019. Despite a continuing recovery, vitamin B3 prices remained behind the previous year; further price increases are expected in H2 2019.

A start of recovery of LSI sales is expected from H2 2019 onwards but with CORE EBITDA margin being lower compared to H1 2019 as a result of scheduled maintenance of LSI sites. With the transition of the nutrition business to LPBN, LSI is further increasing market focus on microbial-control. However, some demand cyclicity, political uncertainties and supply chain challenges are expected to continue.

Outlook

Lonza maintains its Outlook 2019 based on the strong performance of its core healthcare businesses in Pharma Biotech & Nutrition, whilst taking into account the headwinds in its Specialty Ingredients portfolio.

The Outlook 2019 as first communicated with the Full-Year 2018 results in January 2019 is confirmed:

- Mid-to-high single-digit sales growth
- Sustained high CORE EBITDA margin

Lonza concluded the [divestment](#) of its Water Care business unit in February 2019. The gross proceeds of USD 630 million resulted in cash proceeds of CHF 620 million (net of cash disposed of) in H1 2019 and must be netted against estimated income taxes to be paid (CHF 57 million) and transaction-related costs (CHF 26 million). This has resulted in estimated net proceeds of

CHF 537 million. For a limited time, there are transition service agreements with the buyer in place, which positively impact Lonza's corporate results.

Proceeds are being used for the financing of strategic growth investments as well as for deleveraging. Lonza expects CAPEX investments and operational expenditures for the announced projects in LPBN to be geared towards the second half of 2019. Based on current commitments for customer- and demand-backed investments, CAPEX for Full-Year 2019 is expected to reach 11-13% of sales. Lonza expects to achieve a net debt / CORE EBITDA level of below 2x at the end of 2019.

To account for the divestment of the Water Care business, Lonza had also adjusted its Mid-Term Guidance 2022 in March 2019. Lonza confirms its adjusted Mid-Term Guidance for Lonza's continuing operations (excluding the Water Care business unit):

- Sales of CHF 7.1 billion
- CORE EBITDA margin of 30.5%
- CORE RONO 35%
- Double-digit ROIC

Outlook 2019 and Mid-Term Guidance 2022 are based on the present business composition of Lonza's continuing operations (excluding the Water Care business unit), the present macro-economic environment, current visibility and constant exchange rates.

Lonza announced in June its decision to [carve-out](#) the Specialty Ingredients segment. LSI is intended to be fully carved-out and operated independently as part of the Lonza Group. The company expects to complete the process by mid-year 2020. LSI will have the autonomy to push towards a leadership position in microbial control and LPBN will continue to maintain momentum as a major player in Life Science.

For Lonza Half-Year Results 2019, click one of the following links:

[Half-Year Results 2019 Presentation PDF](#)

[Half-Year Results 2019 Report PDF](#)

[Half-Year Results 2019 Financial Tables XLS](#)

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About Lonza

Lonza is an integrated solutions provider that creates value along the Healthcare Continuum®. Through our Pharma Biotech & Nutrition segment and our Specialty Ingredients segment businesses, we harness science and technology to serve markets along this continuum. We focus on creating a healthy environment, promoting a healthier lifestyle and preventing illness through consumers' preventive healthcare, as well as improving patient healthcare by supporting our customers to deliver innovative medicines that help treat or even cure severe diseases.

Patients and consumers benefit from our ability to transfer our pharma know-how to the healthcare, hygiene and fast-moving consumer goods environment and to the preservation and protection of the world where we live.

Founded in 1897 in the Swiss Alps, Lonza today is a well-respected global company with more than 100 sites and offices and approximately 15,500 full-time employees worldwide at the end of 2018. The company generated sales of CHF 5.5 billion in 2018 with a CORE EBITDA of CHF 1.5 billion. Further information can be found at www.lonza.com.

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.

Certain matters discussed in this news release 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 news release 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 news release.