
Lonza Delivers Strong Full-Year 2019 Group Results, with 11% Pharma Segment Growth

- Lonza Group delivers on guidance¹ with 6.8% sales growth, resulting in CHF 5.9bn sales, and CHF 1.6bn CORE EBITDA, resulting in a 27.4% margin
- Pharma Biotech & Nutrition (LPBN) as driver, with 11.0% sales growth and 32.9% CORE EBITDA margin
- Specialty Ingredients (LSI) shows improved 17.8% CORE EBITDA margin, despite sales growth of -3.2%; carve-out progressing according to plan
- Lonza Group outlook 2020: above mid single-digit sales growth², driven by high single-digit sales growth in LPBN, and overall stable CORE EBITDA margin
- Mid-Term Guidance 2022 confirmed, supported by solid building blocks

Quote from Albert M. Baehny, Chairman and CEO *ad interim*, Lonza Group:

“Our people and business have delivered a strong Full-Year 2019 result. The biopharma business achieved double-digit sales growth and a stable CORE EBITDA margin, even though we are investing in significant growth initiatives. Our specialty chemicals businesses showed soft full-year performance after headwinds, but margins began to show improvement.

2019 was a year of change as we accelerated the portfolio review and significantly progressed with the carve-out of our Specialty Ingredients business. Our leadership changes have had no impact on our employees' collective commitment to deliver for our customers and shareholders.

I am confident about our current momentum, and our ability to deliver on our targets in 2020. We look forward to the successful start of operations for major investment projects by the end of the year, completing the carve-out on schedule, announcing a new Group CEO and continuing to work on the delivery of our Mid-Term Guidance 2022”.

¹ Guidance for FY 2019: mid to high-single digit sales growth and sustained high CORE EBITDA margin level

² Outlook 2020 in constant currency

Financial Summary

CHF million	FYR 2019	% YoY	FYR 2018 ¹
Sales	5,920	6.8	5,542
EBITDA	1,525	6.7	1,429
Margin in %	25.8	0bps	25.8
CORE EBITDA	1,620 ²	7.2	1,511
Margin in %	27.4	10bps	27.3
EBIT	972	15.4	842
Margin in %	16.4	120bps	15.2
CORE EBIT	1,245 ³	6.9	1,165
Margin in %	21.0	0bps	21.0
Profit for the Period	763	15.8	659
CORE Profit for the Period	1,014	12.8	899
EPS basic (CHF)	10.28	16.8	8.80
CORE EPS basic (CHF)	13.67	13.6	12.03
EPS diluted (CHF)	10.22	16.5	8.77
CORE EPS diluted (CHF)	13.59	13.4	11.98
ROIC in %	9.1	110bps	8.0
RONOA in %	12.9	80bps	12.1
CORE RONO A in %	28.5	(290bps)	31.4
Operational Free Cash Flow	495	(44.0)	884
Net debt	2,961	(16.2)	3,534
Net debt / CORE EBITDA ratio (last twelve-month basis)	1.83	(19.7)	2.28

¹ Restated to reflect the classification of Water Care business as discontinued operations (see note 4 of [Full-Year Results 2019 Report](#))

² IFRS 16 accounting adjustment on leases had a positive CORE EBITDA impact of CHF 33 million in 2019 (60 bps positive CORE EBITDA margin impact), offset by costs related to the divestment of the Water Care business and carve out of Specialty Ingredients (50 bps negative CORE EBITDA margin impact)

³ IFRS 16 accounting adjustment on leases had a positive CORE EBIT impact of CHF 2 million in 2019 (3 bps positive CORE EBIT margin impact), offset by costs related to the divestment of the Water Care business and carve out of Specialty Ingredients (50 bps negative CORE EBIT margin impact)

Basel, Switzerland, 21 January 2020 – Lonza today reported CHF 5.9 billion in sales, CHF 1.6 billion in CORE EBITDA and CHF 1.2 billion in CORE EBIT for the Full-Year 2019. These strong results reflect the continued positive momentum of the pharma-related businesses. Lonza Group delivered on its guidance with 6.8% sales growth, resulting in a CORE EBITDA margin of 27.4% in an important investment year.

Full-year performance was driven by Lonza's Pharma Biotech & Nutrition (LPBN) segment achieving 11.0% sales growth above guidance, despite a contraction in the nutritional hard capsules business. LPBN reported a CORE EBITDA margin of 32.9%, even after an elevated level of operational expenditure (OPEX) behind growth initiatives.

The Specialty Ingredients (LSI) segment reported weaker sales than anticipated in H2 2019. Segment performance was in line with industry peers and overall softness in global end-markets. However, productivity gains, cost control measures and price increases resulted in a CORE EBITDA margin of 17.8%.

All figures relate to Lonza's continuing operations (excluding the Water Care business unit) in reported currency¹ and are compared with the same period in 2018 on a like-for-like basis ([restated Lonza Full-Year 2018 financial results](#)) to reflect the realignment of the segments. CORE EBITDA margin development was supported by the IFRS 16 new accounting standard on leases, resulting in 60bps incremental margin for Lonza Group, offset by costs related to the divestment of the Water Care business and carve out of Specialty Ingredients, amounting to 50 bps negative CORE EBITDA margin impact.

Pharma Biotech & Nutrition Segment

Lonza Pharma Biotech & Nutrition (LPBN) achieved continued double-digit sales growth above guidance for the Full-Year 2019. The newly expanded segment now includes the nutritional hard capsules business (acquired with Capsugel), as well as a small portfolio of nutritional ingredients and formulation services. LPBN delivered CHF 4.2 billion sales in FY 2019 and a CORE EBITDA of CHF 1.4 billion while investing in strategic growth projects, a number of which are expected to commence operations from the end of 2020.

Financial Summary Pharma Biotech & Nutrition

CHF million	FYR 2019	% YoY	FYR 2018
Sales	4,167	11.0	3,755
CORE EBITDA	1,371	10.0	1,246
Margin in %	32.9	(30 bps)	33.2
CORE EBITDA excl. IFRS 16	1,347	8.1	1,246
Margin in %	32.3	(90 bps)	33.2

¹ Currency exchange effects had 50bps negative impact on actual exchange rate (AER) sales growth. Further information about constant exchange rates (CER) is displayed in the [Full-Year Results 2019 Report](#)

Lonza Pharma Biotech & Nutrition Segment Overview

CDMO Services Businesses	Product Businesses
– Small molecules – Mammalian and microbial – Cell and gene technologies	– Bioscience – Capsule systems – Nutritional ingredients

Contract Development and Manufacturing Organization (CDMO) Services Businesses

The **small molecules** business continued to benefit from innovative business models (including tailored capacity optimized to customer needs), formulation and encapsulation capabilities. Lonza's highly potent active pharmaceutical ingredients (HPAPI) offerings have made a positive contribution, with a number of new long-term contracts signed with customers including [AstraZeneca](#) among others. A contract has also been [signed](#) with a major international biopharmaceutical partner for the production of drug substance payloads for antibody drug conjugates. To address bioavailability challenges, the business launched [SimpliFiH™ Solutions](#), a service package specifically designed for small and emerging innovator companies and their early-stage, first-in-human programs. Dosage forms and delivery systems showed strong performance, securing both commercial business and new long-term contracts. Lonza also entered into an integrated development and manufacturing agreement for producing both API and dosage form. The business has partnered with [Emerald Health Pharmaceuticals](#) for its novel, synthetic Cannabinoid-derived (CBD) drug candidate using soft gel and liquid filled hard capsules.

Mammalian and microbial saw ongoing strong momentum for its clinical and commercial offerings in FY 2019. Commercial agreements signed for new and existing assets provide meaningful sales visibility for the mid- and long-term. Commercial capacities for 2020 are largely committed. Lonza has confirmed a major multinational pharmaceutical company as a new Ibex™ Dedicate customer in Visp (CH). This agreement relates to the commercial manufacture of a microbial-derived product in addition to other Ibex™ Dedicate partners, including [Sanofi](#) and [Portola](#).

Lonza's integrated clinical service offerings gained traction, with shortened development and manufacturing timelines, guaranteed delivery of drug product for IND (Investigational New Drug) applications and secured supply for subsequent clinical and commercial requirements. Customers will benefit from Lonza's gene-to-vial offering in Visp (CH) and Slough (UK), including, among others, [Alector](#), [Genmab](#), and [Citryll](#). Lonza further optimized its proprietary GS Xceed® Toolbox to meet the growing needs for mammalian expression of more complex, innovative therapeutic proteins. Lonza's Drug Product Services (DPS) continue to expand in Basel, Stein and Visp (CH), based on increasing customer demand for new solutions to product design, stability and usability challenges. Lonza's [newly acquired sterile fill and finish facility](#) for clinical supply and commercial launch of parenteral drug product in Stein started production in August 2019 and secured initial customers including Novartis.

Cell and gene technologies benefitted from continued sales momentum in a dynamic market environment, with strong interest in offerings including process development and commercial manufacturing. Lonza signed a significant number of clinical and commercial contracts with

new customers including, among others, [Cellestis](#), [Prevail](#), and [DiNAQOR](#). The business also signed new contracts with existing partners, including [Mesoblast](#) and [Gamida](#), for commercial supply. The cell and gene business expects at least five late-stage registrations in 2020 within its global network. In the coming year, the business unit will continue to focus on improving operational excellence and on delivering seamless service, removing supply chain challenges in autologous cell therapy and ensuring patient safety in personalized therapies while working on a "vein-to-vein" offering.

Product Businesses

Lonza's **bioscience** business for media, research tools, testing solutions and quality control software saw increased demand, based on favorable market trends in drug discovery and cell therapy. Lonza is continuing to make progress with operational improvements.

The **pharma hard capsules** business saw ongoing demand for specialty polymer and dry powder inhalation (DPI) offerings. The business was supported by new product launches but challenged by market conditions in the US and slower growth in developed markets. Several long-term agreements were signed.

The **nutritional hard capsules** business was negatively impacted by increased competition. This was exacerbated by softer demand for conventional gelatin hard capsules and slower growth than anticipated in specialty polymer empty capsules, particularly in mature markets. The business started to implement commercial countermeasures with first impact in Q4 2019.

The **nutritional ingredients** business experienced soft demand. UC-II® manufacturing expansion in Greenwood, SC (USA) is on track to be operational in H1 2020, which will support an improved security of supply.

Investment projects progressing as planned

Lonza is investing in growth opportunities in its core businesses in LPBN. These include capacity expansions and new technologies supporting the full-life cycle of molecules. In 2019, CHF 786 million in Capital expenditures (CAPEX) – 13.3% of Group sales – was spent financing several important growth projects across Lonza's global network with expansions in Visp (CH) for [clinical](#) and [commercial](#) biologics, [HPAPI](#) and bioconjugates (including Antibody Drug Conjugates), in Portsmouth, NH (USA) for [mid-scale mammalian](#), in Guangzhou (CN) for [clinical mammalian](#), in [Houston \(TX\)](#), [Geleen \(NL\)](#), [Singapore \(SG\)](#) and [Portsmouth, NH \(USA\)](#) for cell and gene, and in the Basel area (CH) for [drug product services](#).

Lonza carefully weighs risk-return profiles when investing in new initiatives and offers different business models to its customers depending on their needs. For larger commercial investments, Lonza seeks contractual commitment before build-out. For multi-purpose assets and clinical assets, decisions are based on robust demand projections. Depending on business models, CAPEX contributions and milestone payments by customers may be part of the investment approach. Lonza announced several new customers for its growth projects in 2019, spanning from biotech companies to big pharma.

More than five significant projects are scheduled to start operations by the end of 2020. Lonza expects a similar level of CAPEX in 2020 as in 2019 as some of the 2019 projects will enter final construction phase and a subsequent set of opportunities will be rolled out. Lonza is at an inflection point as biopharma performance over the last few years was based on historic

investments. To continue its current growth trajectory and meet market demand, the business has invested in new capacity, the expansion of its value chain and geographic coverage. 2019 and 2020 constitute a peak investment period with an elevated level of CAPEX spend which is then expected to return to a normalized level. Despite these investments, Lonza's net debt/CORE EBITDA level reduced to 1.83x and Lonza expects to maintain a solid investment grade rating going forward.

To successfully execute these growth investments and ensure the seamless launch and management of new operations, Lonza must hire and train qualified personnel several months in advance of construction completion and ramp-up. In 2019, LPBN has hired more than 1,000 new employees, on average 500 for the full year.

The OPEX impact of growth initiatives will continue to increase in 2020 as Lonza prepares for the start of clinical projects and commercial launches. Currently, LPBN anticipates that it will recruit a further 600 new employees globally in 2020, in addition to the 1000 employees hired in 2019. This scale of on-going recruitment requires a significant investment in on-boarding and training programs, impacting operating margins.

Planned projects are largely expected to contribute to continued growth in Pharma Biotech & Nutrition beyond the Mid-Term Guidance 2022, as facilities are ramped up over several years before full utilization and profitability levels are achieved. The revenue contribution in 2020 of the investments coming on line in Q4 2020 is likely to be modest. New projects are expected to reach peak sales on average five years after start of operations, although there is a wide range of variation, depending on technology.

Specialty Ingredients Segment

Lonza Specialty Ingredients (LSI) has experienced headwinds during Full-Year 2019. Sales declined 3.2%, resulting in CHF 1.7 billion revenues for the segment. Pricing initiatives, operational improvements and cost control measures resulted in a CORE EBITDA of CHF 302 million and solid 17.8% CORE EBITDA margin. LSI will continue to focus on driving recovery for its business, delivering the carve-out and developing a new market-oriented and efficient organization. Over the course of 2019, LSI has worked to develop the structure of its business to reflect more accurately the underlying technology platforms. The business is now set up with a leading portfolio of Microbial Control Solutions (MCS), supported by a division of dedicated Specialty Chemicals Services (SCS).

Financial Summary Specialty Ingredients

CHF million	FYR 2019	% YoY	FYR 2018
Sales	1,693	(3.2)	1,749
CORE EBITDA	302	(0.3)	303
<i>Margin in %</i>	<i>17.8</i>	<i>50 bps</i>	<i>17.3</i>
CORE EBITDA excl. IFRS 16	297	(2.0)	303
<i>Margin in %</i>	<i>17.5</i>	<i>20 bps</i>	<i>17.3</i>

Lonza Specialty Ingredients Segment Overview

Microbial-Control Solutions	Specialty Chemicals Services
– Professional hygiene – Home and personal care – Wood protection – Material protection – Paints & coatings – Crop protection	– Composites – Custom manufacturing organization (CMO) – Performance chemicals & intermediates

While general demand for microbial control applications was solid, the business saw mixed performance, which was related to its various end-markets. Home care disinfection as well as professional hygiene saw positive performance in 2019, with continued strong disinfection sales in veterinary, biosecurity, food service and wipes. Personal care ended the year soft but saw an uptake in H2 as Lonza's anti-dandruff platform for hair care was successfully expanded with the pickup of supply in Europe. Wood protection experienced stable demand, but saw an increasingly competitive environment and pricing pressure, especially in the US market. In material protection, Lonza's oil and gas industry solutions performed strongly; these include corrosion inhibitors and biocides to protect vital operation systems. Polymer and textile faced softer market demand from the automobile industry and still suffered from a suboptimal supply of a BIT (1,2-Benzisothiazolin-3-one)-related intermediate. BIT supply began to regain stability in H2 2019; Lonza expects a fully restored supply by the end of H1 2020. Paints and coatings also showed good performance, despite the shortage of key raw material BIT. Crop protection, especially molluscicides, faced ongoing customer destocking after a dry 2018 summer in Europe, aggressive competition from China and further dry weather in 2019.

The SCS business was negatively impacted by ongoing geopolitical tensions, raw material supply challenges and unfavorable cyclical end-markets. The weak market demand for consumer electronics has been magnified by the US-China trade dispute, impacting the composites business in 2019. Custom manufacturing closed ahead of its 2018 performance level. Competitive pressure from China and supply chain challenges resulted in lower volumes of industrial intermediates. Demand for agrochemical ingredients was down, and the vitamin B3 business was impacted by lower volumes due to the African Swine Fever in Asia and low prices at the beginning of the year.

Carve-out of Specialty Ingredients

The carve-out of Lonza's Specialty Ingredients segment is progressing in line with plans; completion is currently expected in mid-2020. A designated core team of around 40 employees have worked on the carve-out since the program was initiated in June 2019. Carve-out related cost of CHF 19 million had 30bps negative impact on CORE EBITDA margin for full-year 2019.

Outlook 2020 and Mid-Term Guidance 2022

Lonza will continue to execute on all the necessary building blocks to achieve its Mid-Term Guidance 2022. In 2020, Lonza will focus on executing its growth projects in another major investment year, completing the carve-out of its Specialty Ingredients segment and reviewing future plans. The investment in growth projects in LPBN is expected to remain at 2019 levels in order to further expand Lonza's asset and technology platforms for future growth. Lonza has also factored into its outlook the continued macroeconomic uncertainty and some potential ongoing headwinds in the cyclical parts of Lonza's Specialty Ingredients businesses.

Concurrently, Lonza will work to strengthen a culture of shared values, collective accountability, commitment and transparency. Lonza will also increase its efforts to ensure a constant pipeline of talent to develop as future company leaders. Finally, Lonza will establish clearer environmental, social and governance (ESG) targets and action plans for implementation in 2021.

The following outlook for Full-Year 2020 is provided for Lonza Group:

- Above mid single-digit sales growth, with high single-digit sales growth in Pharma Biotech & Nutrition and low-single digit sales growth in Specialty Ingredients
- Stable CORE EBITDA margin

The Outlook 2020 is the next step in achieving Lonza's Mid-Term Guidance 2022 with all necessary building blocks in place. These include continued operating leverage and efficiency improvements in the LPBN base business, the return to a normalized level of investment in LPBN both in CAPEX and OPEX spend from 2021, alongside productivity gains and business recovery in LSI.

Lonza confirms its Mid-Term Guidance 2022:

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

Outlook 2020 and Mid-Term Guidance 2022 are based on the present business composition, the current macro-economic environment, existing visibility and constant exchange rates.

CEO succession

In line with its designated responsibility and remit, the Nomination and Compensation Committee (NCC) of Lonza's Board of Directors is leading the search and evaluation process for a new Chief Executive Officer (CEO). The NCC is recommending potential candidates for assessment by the Board of Directors. The process is expected to be successfully completed with a candidate announced during the course of 2020. To ensure continuing good corporate governance, Lonza appointed Christoph Mäder as Lead Independent Director in November 2019. This will remain in place until a new CEO is appointed, at which time the Chairman will relinquish his additional responsibilities.

Dividend Announced

Lonza's Board of Directors is proposing an unchanged dividend for shareholders of CHF 2.75 per share for 2019. The proposal represents a payout of 30.7% of 2019 reported net profit. Subject to approval at the upcoming Annual General Meeting (AGM) on 28 April 2020, the dividend of CHF 2.75 per share for 2019 will be paid from the reserve capital contribution and 50% will be free from Swiss withholding tax.

Changes in Board of Directors

Two changes in Lonza's Board of Directors were announced. Patrick Aebischer (Vice Chairperson), and Margot Scheltema have decided not to stand for re-election at the upcoming Annual General Meeting (AGM) on 28 April 2020. Patrick Aebischer has been a member of the Board since 2008 and most recently held the role of Vice Chairperson. Margot Scheltema has been a member of the Board since 2012. The Board would like to thank them both for their contributions during their years of service to Lonza.

The Board of Directors is proposing to Lonza's AGM the election of two new Board members, Ms Dorothee Deuring and Dr Moncef Slaoui.

Dorothee Deuring is a professional Board Director and a Corporate Finance Adviser who brings more than 25 years of experience in the fields of manufacturing, biotech, pharmaceuticals and finance. Ms Deuring currently serves on the board of several companies including Axpo, Bilfinger and Elementis. Her Board memberships span the energy, chemical and biopharmaceutical sectors. She received her Master of Science in Chemistry from Université Louis Pasteur, Strasbourg in 1994. She later received her Master in Business Administration from INSEAD, Fontainebleau in 1996.

Dr Moncef Slaoui brings to Lonza extensive experience from his career with GlaxoSmithKline spanning nearly 30 years. In this time, he held a number of leadership positions, including member of the board of GSK Plc, Chairman Pharmaceutical R&D; Chairman, Global R&D for Vaccines & Oncology; and Chairman, Global Vaccines. Currently, Dr Slaoui is partner at Medicxi, a venture capital firm specializing in seed, Series A, early stage and late stage life sciences investments; he also sits on various biotechnology companies' boards. Dr Slaoui received his Ph.D. in Molecular Biology and Immunology from Brussels University in 1983. He later received an accelerated Master of Business Administration from IMD, Switzerland in 1998.

The Board is further proposing to the AGM the re-election of all other Board members.

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

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

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

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

Lonza Contact Details

Dirk Oehlers

Investor Relations Officer
Lonza Group Ltd
Tel +41 61 316 8540
dirk.oehlers@lonza.com

Dr. Kristin Koehler

Investor Relations Director
Lonza Group Ltd
Tel +41 61 316 8782
kristin.koehler@lonza.com

David Carter

Global Head of Communications
Lonza Group Ltd
Tel +41 79 510 1575
david.carter@lonza.com

Dr. Sanna Fowler

Global Head External Communications
Lonza Group Ltd
Tel +41 61 316 8929
sanna.fowler@lonza.com

About Lonza

Lonza is a leading global supplier to the pharmaceutical, biotech and specialty ingredients markets. We work to promote a healthier lifestyle and prevent illness by supporting our customers to deliver innovative medicines that help treat or even cure a wide range of diseases. This is complemented by our broad range of microbial control solutions, which help to create and maintain a healthy environment.

Patients and consumers benefit from how we apply our scientific knowledge and advanced manufacturing technologies to the healthcare, hygiene and fast-moving consumer goods markets and to developing preservation and protection materials.

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 2019). The company generated sales of CHF 5.9 billion in 2019 with a CORE EBITDA of CHF 1.6 billion. Find out more 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.