

# Alternative Performance Measures

## Half-Year 2023



# Introduction

This Finance Report and other communications with investors and analysts include 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 at a divisional level and respectively at a 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<sup>1</sup>:

- 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 2023 and 2022 is as follows:

Million CHF	2023	2022
<b>IFRS Profit</b>	<b>411</b>	<b>498</b>
<b>CORE adjustments</b>		
Environmental remediation expenses	19	22
(Income) / expense resulting from acquisition and divestitures <sup>2</sup>	4	0
Litigations <sup>3</sup>	0	31
Impairments <sup>4</sup>	28	0
Tax effect <sup>5</sup>	(8)	(8)
<b>CORE Profit</b>	<b>454</b>	<b>543</b>
<b>CORE Profit attributable to equity holders of the parent</b>	<b>453</b>	<b>541</b>
<b>CORE Earnings per share attributable to equity holders of the parent</b>	<b>6.12</b>	<b>7.29</b>

- 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 Divestiture costs in relation to the Specialty Ingredients business, that was sold on 1 July 2021
- 3 In 2022, litigation related to a Lonza legacy site / business
- 4 Impairment related to customer specific production assets in Visp (CH)
- 5 Group tax rate of 15.4% for 2023 and 16.2% for 2022

## Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA)

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

Million CHF	2023	2022
<b>Result from operating activities (EBIT)</b>	<b>540</b>	<b>645</b>
Depreciation of property, plant and equipment	215	195
Amortization of intangible assets	86	94
Impairment and reversal of impairment on property, plant, equipment and intangibles <sup>1</sup>	58	0
<b>Earnings before interest, taxes and depreciation (EBITDA)</b>	<b>899</b>	<b>934</b>

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(Income) / expense resulting from acquisition and divestitures <sup>2</sup>	4	0
Litigations <sup>3</sup>	0	31
<b>CORE EBITDA</b>	<b>922</b>	<b>987</b>

1 Impairment related to customer specific production assets in Visp (CH) and intangible assets in Lonza Houston (US)

2 Divestiture costs in relation to the Specialty Ingredients business, that was sold on 1 July 2021

3 In 2022, 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

Million CHF	2023	2022	Change in %
<b>Sales</b>	<b>3'078</b>	<b>2'982</b>	<b>3.2</b>
Retranslation at prior year rates	72		
<b>Sales in constant currency</b>	<b>3'150</b>		<b>5.6</b>
<b>CORE EBITDA</b>	<b>922</b>	<b>987</b>	<b>(6.6)</b>
Retranslation at prior year rates	19		
<b>CORE EBITDA in constant currency</b>	<b>941</b>		<b>(4.7)</b>
Margin in %	29.9		

### Biologics

Million CHF	2023	2022	Change in %
<b>Sales</b>	<b>1'605</b>	<b>1'625</b>	<b>(1.2)</b>
Retranslation at prior year rates	51		
<b>Sales in constant currency</b>	<b>1'656</b>		<b>1.9</b>
<b>CORE EBITDA</b>	<b>506</b>	<b>606</b>	<b>(16.5)</b>
Retranslation at prior year rates	25		
<b>CORE EBITDA in constant currency</b>	<b>531</b>		<b>(12.4)</b>
Margin in %	32.1		

### Small Molecules

Million CHF	2023	2022	Change in %
<b>Sales</b>	<b>393</b>	<b>288</b>	<b>36.5</b>
Retranslation at prior year rates	3		
<b>Sales in constant currency</b>	<b>396</b>		<b>37.5</b>
<b>CORE EBITDA</b>	<b>137</b>	<b>86</b>	<b>59.3</b>
Retranslation at prior year rates	(2)		
<b>CORE EBITDA in constant currency</b>	<b>135</b>		<b>57.0</b>
Margin in %	34.1		

## Cell &amp; Gene

Million CHF	2023	2022	Change in %
<b>Sales</b>	<b>363</b>	<b>344</b>	<b>5.5</b>
Retranslation at prior year rates	18		
<b>Sales in constant currency</b>	<b>381</b>		<b>10.8</b>
<b>CORE EBITDA</b>	<b>71</b>	<b>77</b>	<b>(7.8)</b>
Retranslation at prior year rates	7		
<b>CORE EBITDA in constant currency</b>	<b>78</b>		<b>1.3</b>
Margin in %	20.5		

## Capsules and Health Ingredients

Million CHF	2023	2022	Change in %
<b>Sales</b>	<b>595</b>	<b>625</b>	<b>(4.8)</b>
Retranslation at prior year rates	32		
<b>Sales in constant currency</b>	<b>627</b>		<b>0.3</b>
<b>CORE EBITDA</b>	<b>190</b>	<b>220</b>	<b>(13.6)</b>
Retranslation at prior year rates	13		
<b>CORE EBITDA in constant currency</b>	<b>203</b>		<b>(7.7)</b>
Margin in %	32.4		

## Corporate

Million CHF	2023	2022
<b>Sales</b>	<b>122</b>	<b>100</b>
Retranslation at prior year rates	(32)	
<b>Sales in constant currency</b>	<b>90</b>	
<b>CORE EBITDA</b>	<b>18</b>	<b>(2)</b>
Retranslation at prior year rates	(24)	
<b>CORE EBITDA in constant currency</b>	<b>(6)</b>	

# Liquidity and Capital Measures

## Net Debt, Net Debt / CORE EBITDA Ratio, Debt / Equity Ratio

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 2023	31 December 2022	Change
Non-current debt	2'461	1'554	907
Current debt	449	678	(229)
<b>Total debt</b>	<b>2'910</b>	<b>2'232</b>	<b>678</b>
Non-current loans and advances	(198)	(194)	(4)
Short-term investments	(450)	(885)	435
Cash and cash equivalents	(1'698)	(1'339)	(359)
<b>Total cash &amp; cash equivalents, short term investments and loans and advances</b>	<b>(2'346)</b>	<b>(2'418)</b>	<b>72</b>
<b>Net debt / (net cash)</b>	<b>564</b>	<b>(186)</b>	<b>750</b>
	30 June 2023	31 December 2022	
Net debt / (cash) / CORE EBITDA Ratio	0.3	(0.1)	
Debt / Equity Ratio	0.1	(0.0)	

## Return On Invested Capital (ROIC)

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-month period ended 30 June

Million CHF	2023	2022
<b>Result from operating activities (EBIT)</b>	<b>540</b>	<b>645</b>
Share of result of associates / joint ventures	(13)	1
<b>CORE adjustments</b>		
Environmental remediation expenses	19	22
Income resulting from acquisition and divestitures <sup>1</sup>	4	0
Litigations <sup>2</sup>	0	31
Impairments <sup>3</sup>	28	0
<b>Net operating profit before taxes</b>	<b>578</b>	<b>699</b>
Taxes <sup>4</sup>	(89)	(113)
<b>Net operating profit after taxes (NOPAT)</b>	<b>489</b>	<b>586</b>
<b>Net operating profit after taxes (NOPAT), annualized<sup>5</sup></b>	<b>978</b>	<b>1'172</b>
<b>Average invested capital</b>	<b>11'187</b>	<b>10'050</b>
<b>ROIC in %</b>	<b>8.7</b>	<b>11.7</b>

1 Divestiture costs in relation to the Specialty Ingredients business, that was sold on 1 July 2021

2 In 2022, litigation related to a Lonza legacy site / business

3 Impairment related to customer specific production assets in Visp (CH)

4 Group tax rate of 15.4% for 2023 and 16.2% for 2022

5 NOPAT for the six-month period 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	2023	2022
Intangible assets	2'209	2'434
Property, plant & equipment	6'370	5'041
Goodwill	2'884	2'981
Inventories	1'930	1'692
Trade receivables	1'034	931
Other operating receivables	334	289
Other assets	225	195
Trade payables	(445)	(458)
Other operating liabilities	(2'739)	(2'574)
Net current and deferred tax liabilities	(615)	(481)
<b>Average invested capital</b>	<b>11'187</b>	<b>10'050</b>



## 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.

Components of Operational Free Cash Flow			
Million CHF	2023	2022	Change
<b>Earnings before interest, taxes and depreciation (EBITDA)</b>	<b>899</b>	<b>927</b>	<b>(28)</b>
Change in operating net working capital	(436)	(492)	56
Capital expenditures in tangible and intangible assets	(765)	(841)	76
Disposal of tangible and intangible assets	2	(1)	3
Change of other assets and liabilities	238	70	168
<b>Operational free cash flow (before acquisitions / divestitures)</b>	<b>(62)</b>	<b>(337)</b>	<b>275</b>
Acquisition of subsidiaries	(94)	(4)	(90)
<b>Operational free cash flow</b>	<b>(156)</b>	<b>(341)</b>	<b>185</b>

**Upcoming Roadshows:**

**25 August 2023**

Credit Suisse, Zurich

**28 August 2023**

JP Morgan, New York

**29 August 2023**

JP Morgan, Boston

**4–5 September 2023**

UBS, London

**Upcoming Announcements:**

**17 October 2023**

Capital Markets Day  
(incl. Qualitative Update)

**26 January 2024**

Full-Year Results 2023

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