

Alternative Performance Measures

Full-Year 2021



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 event¹:

- 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 Full-year 2021 and 2020 is as follows:

Million CHF	2021	2020 ² restated
Profit from continuing operations	677	732
Environmental remediation expenses ³	300	8
(Income) / expense resulting from acquisitions and divestitures ⁴	0	(7)
Tax effect ⁵	(33)	0
CORE Profit from continuing operations	944	733
CORE Profit from continuing operations attributable to equity holders of the parent	941	731
CORE Earnings per share attributable to equity holders of the parent	12.67	9.82

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 CORE results for the Full-year 2020 were restated to reflect the changes from the revised Alternative Performance Measures policy that was introduced on 1 January 2021

3 Environmental remediation expenses in 2021 predominantly relate to Gamsenried (CH). Refer to note 6 disclosed in the Selected Explanatory Notes of the Full-Year Report 2021

4 Positive impacts related to the acquisition of Capsugel in 2017

5 Group tax rate on continuing operations of 10.9% for 2021 and 8.8% for 2020

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	2021	2020
Result from operating activities (EBIT)	851	901
Depreciation of property, plant and equipment	347	284
Amortization of intangible assets	175	169
Impairment and reversal of impairment on property, plant, equipment and intangibles	(8)	24
Earnings before interest, taxes and depreciation (EBITDA)	1'365	1'378

Million CHF	2021	2020 ¹ restated
Earnings before interest, taxes and depreciation (EBITDA)	1'365	1'378
Environmental remediation expenses ²	300	8
(Income) / expense resulting from acquisition and divestitures ³	0	(7)
CORE EBITDA	1'665	1'379

1 CORE results for the Full-year 2020 were restated to reflect the changes from the revised Alternative Performance Measures policy that was introduced on 1 January 2021

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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	2021	2020	Change in %
Sales	5'409	4'508	20.0
Retranslation at prior year rates	(1)		
Sales in constant currency	5'408		20.0
CORE EBITDA	1'665	1'379¹	20.7
Retranslation at prior year rates	(7)		
CORE EBITDA in constant currency	1'658		20.2
Margin in %	30.7		

Biologics

Million CHF	2021	2020	Change in %
Sales	2'699	2'146	25.8
Retranslation at prior year rates	(24)		
Sales in constant currency	2'675		24.7
CORE EBITDA	979	831	17.8
Retranslation at prior year rates	(6)		
CORE EBITDA in constant currency	973		17.1
Margin in %	36.4		

Small Molecules

Million CHF	2021	2020	Change in %
Sales	767	692	10.8
Retranslation at prior year rates	5		
Sales in constant currency	772		11.6
CORE EBITDA	215	192	12.0
Retranslation at prior year rates	9		
CORE EBITDA in constant currency	224		16.7
Margin in %	29.0		

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Cell & Gene

Million CHF	2021	2020	Change in %
Sales	602	481	25.2
Retranslation at prior year rates	7		
Sales in constant currency	609		26.6
CORE EBITDA	106	13	715.4
Retranslation at prior year rates	0		
CORE EBITDA in constant currency	106		715.4
Margin in %	17.4		

Capsules and Health Ingredients

Million CHF	2021	2020	Change in %
Sales	1'204	1'153	4.4
Retranslation at prior year rates	13		
Sales in constant currency	1'217		5.6
CORE EBITDA	414	378	9.5
Retranslation at prior year rates	4		
CORE EBITDA in constant currency	418		10.6
Margin in %	34.3		

Corporate

Million CHF	2021	2020	Change in %
Sales	137	36	280.6
Retranslation at prior year rates	(2)		
Sales in constant currency	135		275.0
CORE EBITDA	(49)	(35)¹	40.0
Retranslation at prior year rates	(14)		
CORE EBITDA in constant currency	(63)		80.0

1 CORE results for the Full-year 2020 were restated to reflect the changes from the revised Alternative Performance Measures policy that was introduced on 1 January 2021

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	31 December 2021	31 December 2020	Change
Debt			
Non-current debt	2'234	2'784	(550)
Current debt	169	796	(627)
Current debt classified as held for sale	0	14	(14)
Total debt	2'403	3'594	(1'191)
Loans and advances			
Non-current loans and advances	(177)	(162)	(15)
Short-term investments	(1'602)	0	(1'602)
Cash and cash equivalents	(1'582)	(495)	(1'087)
Cash and cash equivalents classified as held for sale	0	(124)	124
Total loans and advances and cash and cash equivalents	(3'361)	(781)	(2'580)
Net debt	(958)	2'813	(3'771)
	2021	2020 restated ²	
Net debt / CORE EBITDA Ratio ¹	(0.53) ³	1.66	
Debt / Equity Ratio	(0.09)	0.41	

1 Net debt / CORE EBITDA is calculated based on the CORE EBITDA of the last twelve months

2 CORE results for the Full-year 2020 were restated to reflect the changes from the revised Alternative Performance Measures policy that was introduced on 1 January 2021

3 Net debt/CORE EBITDA is calculated based on the CORE EBITDA of the last twelve months for the total Group. This ratio calculated on continuing operations would result in a ratio of (0.58)

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 net operating profit after taxes and return on invested capital (ROIC) for the twelve-months period ended 31 December

Million CHF	2021	2020 ¹ restated
Result from operating activities (EBIT)	851	901
Share of gain / (loss) of associates / joint ventures	(28)	(4)
CORE adjustments		
Environmental remediation expenses ²	300	8
(Income) / expense resulting from acquisitions and divestitures ³	0	(7)
Net operating profit before taxes	1'123	898
Taxes ⁴	(122)	(79)
Net operating profit after taxes (NOPAT)	1'001	819
Average invested capital	9'387	9'019
ROIC in %	10.7	9.1

1 Net Operating profit before taxes for the Full-year 2020 were restated to reflect the changes from the revised Alternative Performance Measures policy that was introduced on 1 January 2021

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Components of average invested capital for the twelve-months period ended 31 December

Million CHF	2021	2020
Intangible assets	2'560	2'720
Property, plant & equipment	4'079	3'288
Goodwill	3'079	3'066
Inventories	1'397	1'112
Trade receivables	766	668
Other operating receivables	303	265
Other assets	263	237
Trade payables	(379)	(275)
Other operating liabilities	(2'009)	(1'382)
Net current and deferred tax liabilities	(672)	(680)
Average invested capital	9'387	9'019

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 financial year 2021 Lonza concluded to adjust for the two following non-cash transactions which would have otherwise significantly distorted the current year's operational free cashflow:

- Recognition of the Gamsenried environmental provision,
- Recycling of accumulated exchange rate translation reserve losses related to the Specialty Ingredients business.

Components of Operational Free Cash Flow¹

Million CHF	2021	2020	Change
Earnings before interest, taxes and depreciation (EBITDA)	3'683	1'656	2'027
Change of operating net working capital	(257)	(246)	(11)
Capital expenditures in tangible and intangible assets	(1'341)	(973)	(368)
Disposal of tangible and intangible assets	19	14	5
Change of other assets and liabilities	257	262	(5)
Gamsenried environmental remediation expenses ²	285	0	285
Specialty Ingredients business – Recycling accumulated exchange rate effects	186	0	186
Gain from sales of assets held for sale and subsidiaries ³	(2'426)	0	(2'426)
Operational free cash flow (before acquisitions / divestitures)	406	713	(307)
Acquisitions of subsidiaries	(47)	(15)	(32)
Divestitures of subsidiaries	4'092	7	4'085
Operational free cash flow	4'451	705	3'746

¹ Operational Free Cash Flow represents Lonza Group incl. Discontinuing Operations

² Refer to note 6 disclosed in the Selected Explanatory Notes of the Full-Year Report 2021

³ Gain related to both LSI and Softgel Liquid-filled hard-capsule divested businesses

Appendix

Changes in Alternative Performance Measures presented

As communicated on 15 October 2020 as part of the Investor Update, Lonza's new reporting steering model leads to the elimination of the following APMs previously reported:

- CORE EBIT and CORE EBIT margin
- CORE Profit
- CORE RONOA

Change in definition of CORE adjustments

Lonza has significantly increased the thresholds of CORE adjustments for the financial year 2021 as well as eliminated two categories entirely.

The following table compares the categories for CORE adjustments and thresholds applied per event of new vs. previous definitions:

Categories	New definitions	Previous definitions
Acquisition-related income and expenses	> CHF 20 million	no threshold
Amortization of acquisition-related intangible assets	excluded	no threshold
Divestitures and separation related income and expenses	> CHF 20 million	no threshold
Restructuring income and expenses	> CHF 20 million	> CHF 0.5 million
Impairments (and related reversals)	> CHF 20 million	no threshold
Environmental-related income and expenses (related to historical environmental issues only)	> CHF 20 million	> CHF 10 million
Pension plans – curtailments and settlements	> CHF 20 million	> CHF 10 million
Litigations	> CHF 20 million	> CHF 10 million
Results from associates & joint ventures	excluded	no threshold

24 March 2022

Annual and Sustainability Reports publication

5 May 2022

AGM

9 May 2022

Ex- Dividend date

10 May 2022

Record-Dividend Date

11 May 2022

Dividend-Payment Date

22 July 2022

Half-Year Results 2022

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