

## Acquisition of Capsugel External Q&A

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### 1. What Is Happening?

- Lonza has today announced that it has entered into a definitive agreement under which Lonza will acquire Capsugel, a globally leading provider of high-quality, innovative dosage forms, technologies and solutions to the pharma and consumer healthcare and nutrition industries, headquartered in Morristown, NJ (USA). The deal will cost Lonza USD 5.5 billion in cash, including refinancing of existing Capsugel debt of USA ~2 billion
- The acquisition is expected to accelerate Lonza's growth and ability to deliver value along the healthcare continuum. Upon completion of the acquisition Lonza will become a fully integrated solutions provider in oral delivery technologies and active ingredients to the consumer healthcare and nutrition markets.

### 2. When?

- The transaction is expected to close in the second quarter of 2017 and is subject to certain regulatory approvals and other customary closing conditions.

### 3. Why Are We Taking This Decision?

- This acquisition is fully in line with Lonza's stated strategy to accelerate growth and deliver value along the healthcare continuum by complementing its existing offerings and by opening up new market opportunities in the pharma and consumer healthcare and nutrition industries.
- With the acquisition of Capsugel, Lonza will add a trusted brand with a large breadth of technologies and will expand the market reach of its contract development and manufacturing organization (CDMO) and products businesses.
- It will support Lonza's strategic ambition of getting closer to the patient or end consumer.
- Lonza will become a fully integrated solutions provider in oral delivery technologies and active ingredients to the consumer healthcare and nutrition markets.
- The combined portfolio offering will position Lonza as the development, formulation, delivery technology and manufacturing partner of choice for the pharma industry.
- Pharmaceutical, consumer healthcare and nutrition customers will benefit from an integrated portfolio of industry-leading technologies, from active pharmaceutical ingredients (APIs) through excipients to dosage forms and delivery technologies.

### 4. How Will Capsugel Fit into Lonza's Business?

There will be strategic fits for both LPB and LSI businesses

- Acquisition addresses needs of customers for integrated, value-added solutions that accelerate drug and ingredient delivery to patients and consumers
- The combined portfolio offering will position Lonza as the development, formulation, delivery technology and manufacturing partner of choice for the pharma industry
- Lonza will become a fully integrated solutions provider in oral delivery technologies and active ingredients to the consumer healthcare and nutrition markets

- It will provide additional value by offering an integrated portfolio of industry-leading technologies, from active pharmaceutical ingredients (APIs) through excipients to dosage forms and delivery technologies.

## 5. Who Is Capsugel?

- Capsugel is the global leader in providing high-quality, innovative dosage forms, technologies and solutions to the biopharmaceutical and consumer health and nutrition industries
- Capsugel has three business segments:
  - Oral Solids (Tablets, Hard Capsules, Softgels)
  - Inhaled/Nasal (Dry Powder Inhaler)
  - Development Services
- ~3,600 employees
- 13 manufacturing facilities and 3 R&D centers in 9 countries on 3 continents
- Significant scale with 200 billion capsules manufactured in 2015
- Full-year 2015 turnover of ~USD 1 billion
  - 1/3 – Consumer Health and Nutrition
  - 2/3 – Biopharma Products
  - Regional split: 44% Americas, 37% EMEA, 19% Asia
- Track record of rapidly growing businesses in specialized formulation, dosage delivery and development services
- More than 4,000 customers in more than 100 countries
- Strong R&D and Engineering Expertise
  - 3 dedicated R&D centers
  - Lab-, pilot- and clinical-scale manufacturing
  - Proprietary manufacturing equipment providing exceptional quality and productivity at commercial scale
  - Deep expertise in regulatory processes with more than 100 audits compiled annually
  - Patent portfolio of >170 patent families across technologies

## 6. Do We Expect Headcount Reductions as Result of This Acquisition?

At this moment in time, it's too early to state. However the focus of this transaction is to gain benefits from positive top-line and innovation synergies. That's why we do foresee a seamless integration while continuing the strong growth trajectory of the Capsugel business. Lonza believes that the step-by-step integration will preserve the strong innovation culture.

## 7. How Will This Decision Benefit Lonza's Customers?

- With the addition of Capsugel's world-leading advanced oral dosage delivery technologies, including its leading position in hard capsule technologies, Lonza will become the partner of choice for its pharma customers along the entire value chain
- The combined technologies and offerings will provide customers innovative solutions in both large and small molecules and are expected to solidify Lonza's position as the partner best able to support the pharma industry by bringing new, differentiated medicines to market rapidly and efficiently

- The acquisition is expected to strengthen Lonza's position in consumer healthcare and nutrition as it becomes a fully integrated and innovative service provider of active ingredients, oral dosage forms, development services and delivery technologies.
- Lonza will be well positioned to meet the increasing need for optimized consumer health and nutrition through a wide offering of next-generation dosage forms
- The combined business plans to leverage its bioavailability technology to create a new dietary ingredient-ready offering, as well as capitalize on its formulation expertise to develop new ingredients and to market new combination products.
- Customer will gain from the simplicity and efficiency of working with one company that can provide world-leading support from APIs to excipients and dosage forms. The combined business will allow us to partner with our customers to help them bring highly differentiated products to market more quickly and efficiently.
- The combined business will be well positioned to benefit from the dynamics in these industries and to anticipate and address technology trends in order to support the evolving needs of its customers.
- Both companies enjoy a strong quality and regulatory track record, and we believe that the combination enables us to provide the most complete set of tailored and integrated solutions for our customers.

#### **8. Will Capsugel Become a New Lonza Segment or Will It Be Integrated into the Existing Lonza Segments Pharma&Biotech and Specialty Ingredients?**

It's expected that the two Capsugel business units (Biopharmaceutical, Consumer Health & Nutrition) will report into both Lonza segments from closing: Biopharma into Pharma&Biotech, CH&N into Specialty Ingredients

#### **9. Will There Be Any Synergies?**

- A highly synergistic customer base, an expanded addressable market and an improved value proposition for the customer will allow Lonza to further leverage its current product and service offerings.
- Allowance of cross-selling of existing products, combine manufacturing solutions and services and create an integrated value offering that merges Lonza's ingredients with Capsugel's dosage forms
- Lonza expects to achieve CHF ~30 million p.a. operating synergies and CHF ~15 million tax synergies p.a. by year three and CHF ~100 million p.a. top-line synergies in the mid- to long-term

#### **10. Will Lonza's Headquarters Remain in Switzerland?**

- Lonza will continue to be headquartered in Basel, Switzerland, where our Board of Directors will continue to be based. We will continue to be listed in Switzerland (SIX) and in Singapore (SGX).

#### **11. What Is the Expected Timeline for the Integration?**

A pre-integration team, led by Fridthof Helemann, has been set up which starts to analyze, plan and design the integration now. The integration is planned to be started in Q2 2017.

## 12. How Can Lonza Handle the Integration?

- Lonza has successfully integrated many acquisitions from broader ones like Arch in 2011, to more targeted ones like InterHealth in 2016.
- We do have the heritage and management capability to handle the forthcoming integration well
- Capsugel is a well-established organization with very clear and lean structures. The integration is assumed to be seamless.
- Both companies have complementary business and more importantly do share a set of similar cultural values.
- Lonza based on past experience knows that the integration of 3,600 new colleagues in 13 different sites is a challenge but we know how to handle this.

## 13. Will You Get External Consultants for the Integration? Who Will It Be?

We will amend our capabilities and resources on an as-needed basis and do not exclude involving consultants like in the past.

## 14. How Is the Deal Financed?

- The USD 5.5 billion all-cash acquisition of Capsugel will be financed with a combination of debt and equity financing.
- Lonza has committed debt financing for the full acquisition size from BofA Merrill Lynch and UBS and plans to raise equity, which is fully underwritten by UBS and BofA Merrill Lynch for an amount up to CHF 3.3 billion.
- Lonza has committed full financing from BofA Merrill Lynch and UBS and plans to raise equity, which is fully underwritten by UBS and BofA Merrill Lynch.
- Lonza's Board of Directors is currently authorized to increase the share capital through the issuance of 5,000,000 fully paid-in registered shares. Lonza's Board intends to seek approval for additional share capital at its upcoming annual general meeting (AGM) in April 2017.
- Lonza expects to retain a leverage profile around its ~3x net debt/EBITDA target at closing and to maintain its unofficial investment-grade credit profile assigned by a number of Swiss banks. Lonza believes that the strong projected cash flow of the combined company will enable rapid de-leveraging after the acquisition and continue to support all planned growth initiatives.
- The financial package foresees the refinancing of Lonza's current CHF 700 million revolving credit facility.
- The EV/adjusted EBITDA multiple for the transaction adds up to 15.1x based on the last 12 months adjusted EBITDA figures up to September 2016.

## 15. How Can I Learn More?

- Any public information about Lonza and the acquisition can be found on the dedicated transaction website [www.TheFutureLonza.com](http://www.TheFutureLonza.com), which may be updated from time to time.