



# Acquisition of Capsugel Accelerating Growth Along the Healthcare Continuum

**LONZA**

**Capsugel®**

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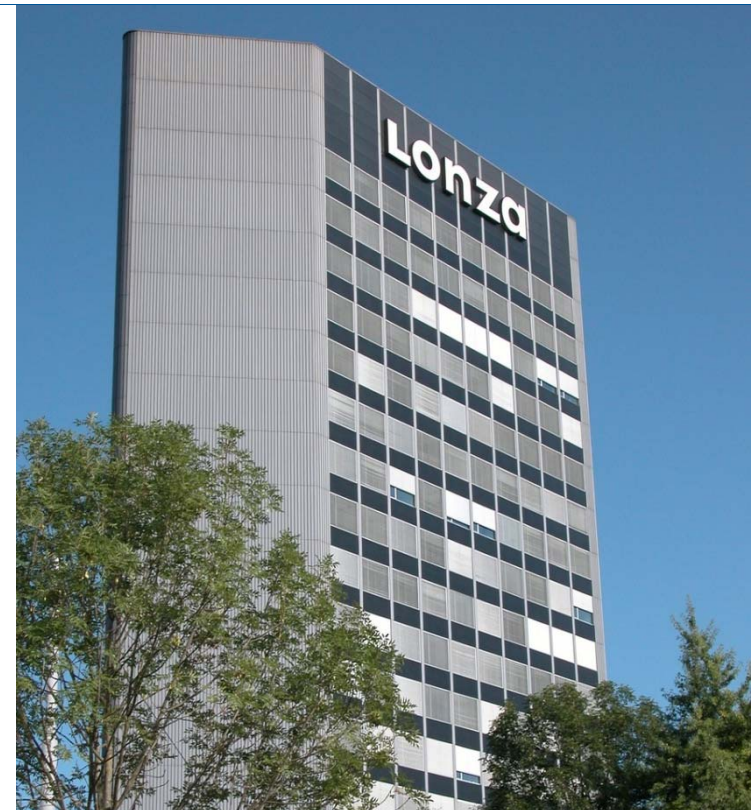
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# Accelerating Growth Along the Healthcare Continuum

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Creates **leading integrated solutions provider** to the global pharma and consumer healthcare industries




Enhances competitive position through **stronger innovation, combined scale and market leadership**



Addresses needs of customers for integrated, value-added solutions that **improve and accelerate drug and ingredient delivery to patients and consumers**



Enhances **growth and margin profile** with **highly complementary product offerings** and synergistic customer base



Combines two highly regarded companies with **leading quality and regulatory track records**

## Expected Financial Advantages

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- Enhanced growth profile, CORE EBITDA margin and CORE RONOA
- Accretive to CORE EPS in first full year post closing<sup>(1)</sup>
- Strong free cash flow generation to target rapid de-leveraging
- Near-term operating synergies of ~CHF 30 mn p.a. and tax synergies of ~CHF 15 mn p.a. by year 3
- Mid to long-term top-line synergy potential of ~CHF 100 mn p.a. by year 5

# Transaction Structure

<b>Structure</b>	<ul style="list-style-type: none"> <li>▪ Cash acquisition of 100% Capsugel shares from KKR</li> </ul>
<b>Value</b>	<ul style="list-style-type: none"> <li>▪ Enterprise value of USD 5.5 billion</li> <li>▪ Includes refinancing of existing Capsugel debt (~USD 2 billion)</li> <li>▪ LTM transaction EV/Adjusted EBITDA multiple of 15.1 x<sup>(1)</sup></li> </ul>
<b>Financing</b>	<ul style="list-style-type: none"> <li>▪ Fully committed financing by Bank of America Merrill Lynch and UBS of USD 6.2 billion<sup>(2)</sup></li> <li>▪ Standby equity underwriting of up to CHF 3.3 billion</li> <li>▪ Financing structure targeting around 3x net debt/EBITDA</li> <li>▪ Committed to maintaining current investment grade rating<sup>(3)</sup></li> <li>▪ Final financing structure to include new equity, term loan and debt capital markets instruments</li> </ul>
<b>Timing</b>	<ul style="list-style-type: none"> <li>▪ Closing expected in second quarter of 2017</li> <li>▪ Subject to regulatory approvals and customary closing conditions</li> </ul>

(1) Based on LTM Sep-2016 Adj. EBITDA of USD 364 mn; based on Capsugel Management definition of Adj. EBITDA. Certain differences exist compared to Lonza's CORE EBITDA definition.  
LTM: Last Twelve Months

(2) Including CHF 700 million Revolving Credit Facility

(3) Based on unofficial credit rating assigned by a number of Swiss banks.



# Introduction to Capsugel

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# Capsugel: At a Glance

- Design, development and manufacture of a wide range of innovative dosage forms for the pharma and consumer health and nutrition (CH&N) industries
- Leader in hard capsule drug delivery technology
- Significant scale with 200 billion capsules manufactured in 2015
- Track record of rapidly growing businesses in specialized formulation, dosage delivery and development services
- 2015 sales of USD 1.0 billion and adjusted EBITDA of USD 344 million



# Capsugel: Business Overview

## Pharmaceutical Highlights

- Is recognized as a leading provider of solutions in bioavailability enhancement, targeted delivery and capsule technologies/encapsulation
- Collaborates with customers to develop customized solutions that meet the desired product profile
- Has formulated more than 4,000 compounds

## Consumer Health & Nutrition Highlights

- Has wide portfolio of capsule sizes, designs and polymers, including various gelatin blends
- Offers range of technologies that address the trends of today's organic and health-conscious segments
- Is recognized for scientific expertise, innovative formulation / delivery technologies, and high quality manufacturing

## Key Products and Technologies



# Capsugel: Strong Heritage Complemented by Investments in Innovation

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- 1874** Parke-Davis begins making first empty, two-piece hard capsules in Detroit, MI (USA)
- 1963** Capsugel AG founded and headquarters established in Basel
- 1970** Parke-Davis merged with Warner Lambert
- 2000** Warner Lambert acquired by Pfizer
- 2011** Capsugel sold by Pfizer to global investment firm KKR
- 2013** Acquisitions of:
  - [Encap Drug Delivery](#) (CDMO working on liquid and semi-solid capsule products)
  - [Bend Research](#) (Drug delivery technologies and formulation development)
- 2016** Acquisitions of:
  - [Xcelience](#) (Preformulation, development, small-scale commercial manufacturing and clinical packaging and logistics)
  - [Powdersize](#) (Particle size reduction and particle size control technologies)

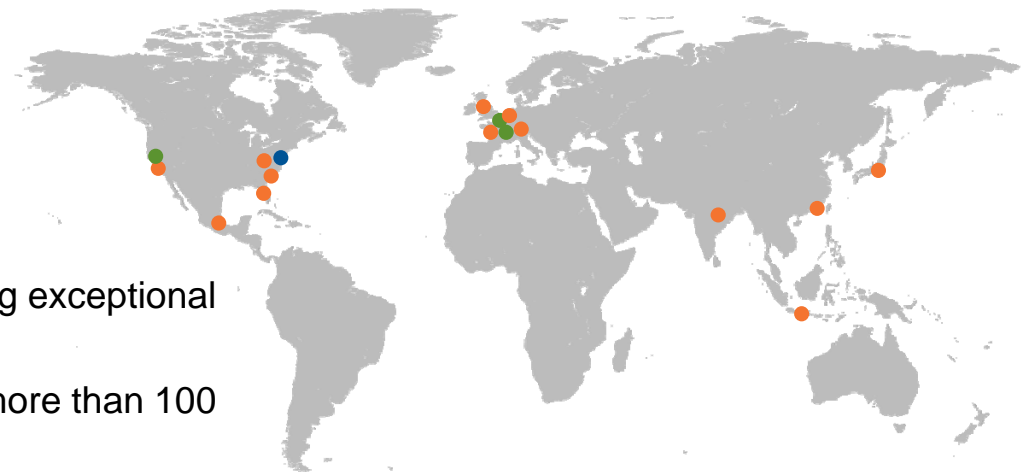
# Capsugel: Global Manufacturing and Research Network

## Global Footprint

- 13 facilities on 3 continents and ~3,600 employees
- More than 4,000 customers in more than 100 countries
- Headquarters in Morristown, NJ (USA)

## 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



■ Corporate Office











■ Manufacturing (13 Facilities)

■ R&D (3 facilities)

# Capsugel: Premier Provider of Dosage Form and Development Solutions

Products	CDMO	
<p><b>Hard Capsules</b></p> <ul style="list-style-type: none"> <li>■ Leader in hard capsules</li> <li>■ Industry’s broadest portfolio to customers in pharma and consumer health &amp; nutrition industries</li> <li>■ Highly customized and value-added offering</li> </ul>	<p><b>Other Dosage Forms</b></p> <ul style="list-style-type: none"> <li>■ Premier portfolio of innovative dosage forms, technologies and services</li> <li>■ Solutions for customers’ most pressing product-development challenges – such as bioavailability, targeted delivery and specialized formulations (e.g. taste masking, abuse deterrent)</li> </ul>	<p><b>Development Services</b></p> <ul style="list-style-type: none"> <li>■ Emerging custom development business for pharmaceutical customers</li> <li>■ Focus on drug design based on enabled formulations for improved bioavailability and drug delivery</li> <li>■ Full range of innovative, solid oral dosage forms</li> </ul>
<p><b>82% of sales<sup>(1)</sup></b></p>	<p><b>11% of sales<sup>(1)</sup></b></p>	<p><b>7% of sales<sup>(1)</sup></b></p>

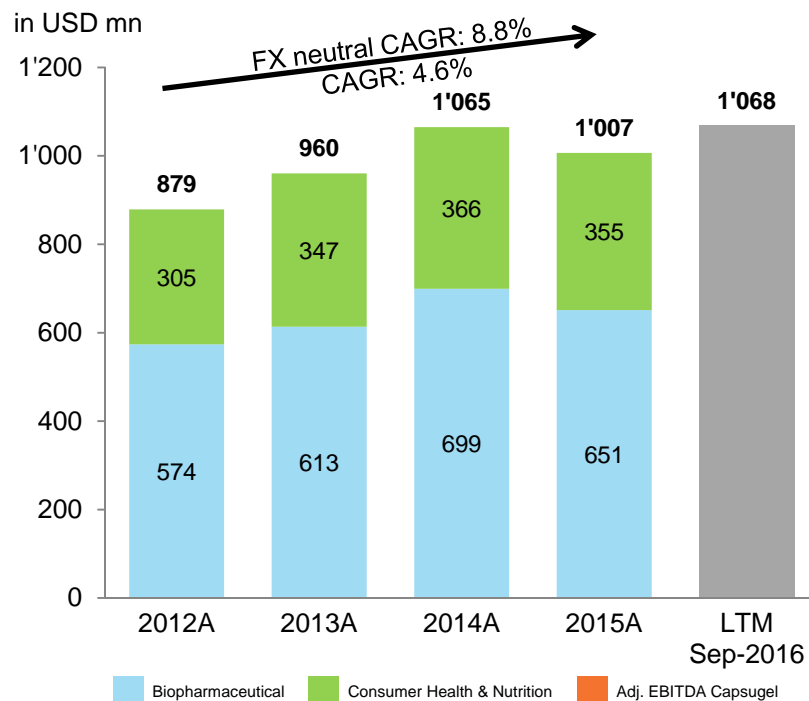
# Capsugel's Leading Portfolio of Innovative Technologies to Address Customers' Needs

Encapsulation			Bioavailability Enhancement	Targeted Delivery	Specialized Applications
<p><b>Biopharmaceutical Hard Capsules</b></p> <ul style="list-style-type: none"> <li>• 11k+ SKUs shipped annually of different polymers, sizes, colors, print designs and regulatory approvals</li> </ul>   	<p><b>Consumer Health &amp; Nutrition Hard Capsules</b></p> <ul style="list-style-type: none"> <li>• Broad portfolio to support "clean label" claims, e.g., vegetarian, organic and non-GMO</li> </ul>   	<p><b>Licaps, Banded and Softgel Capsules</b></p> <ul style="list-style-type: none"> <li>• Solutions for complex formulation challenges, including liquid, semi-solid and multi-particulates</li> </ul>   	<ul style="list-style-type: none"> <li>• Extensive technologies that address bioavailability challenges</li> <li>• Lipids-based formulations</li> <li>• Spray-dried dispersions</li> <li>• Hot-melt extrusions</li> <li>• Micronizing / Nanoparticle technology</li> <li>• Specialty polymers</li> </ul>	<ul style="list-style-type: none"> <li>• Intrinsically functional capsules                             <ul style="list-style-type: none"> <li>– Delayed release capsules</li> <li>– Vcaps® Enteric capsules</li> <li>– enTRinsic DDT</li> </ul> </li> <li>• Matrix and osmotic approaches</li> </ul>  <p>Cap-in-Cap (DUOCAP™)</p>	<ul style="list-style-type: none"> <li>• Abuse deterrence (ABUSOLVE™)</li> <li>• Taste-masking</li> <li>• Food effect</li> <li>• API stability</li> <li>• Biologics, including processing and formulation</li> <li>• Inhalation technology, including particle engineering and DPI formulations</li> <li>• Pediatrics</li> </ul>

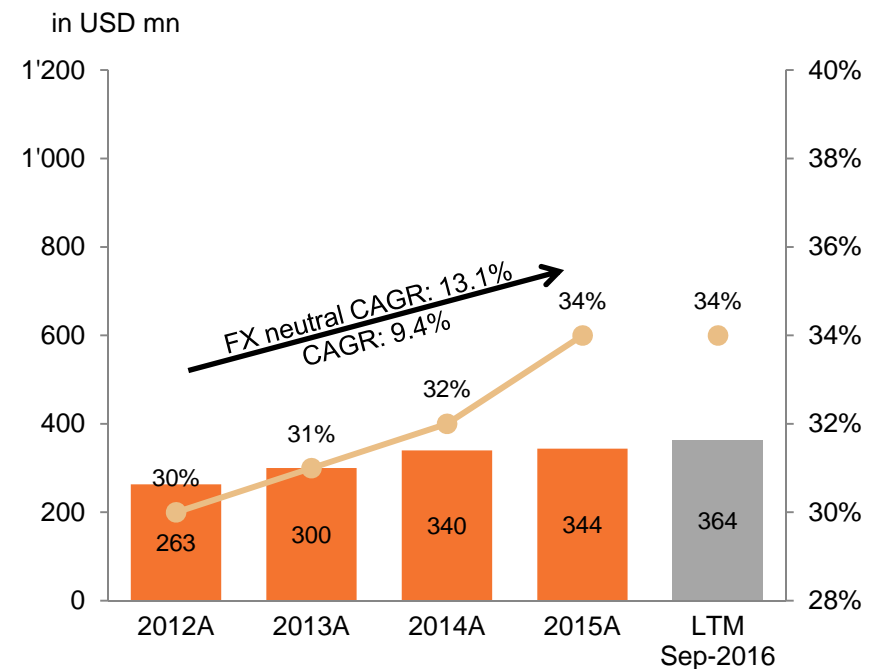
## Delivery Technologies Platforms Beyond Encapsulation

# Capsugel: Attractive Growth and High Profitability

**Sales by Business<sup>(1)</sup>**



**Adjusted EBITDA<sup>(1)</sup>**





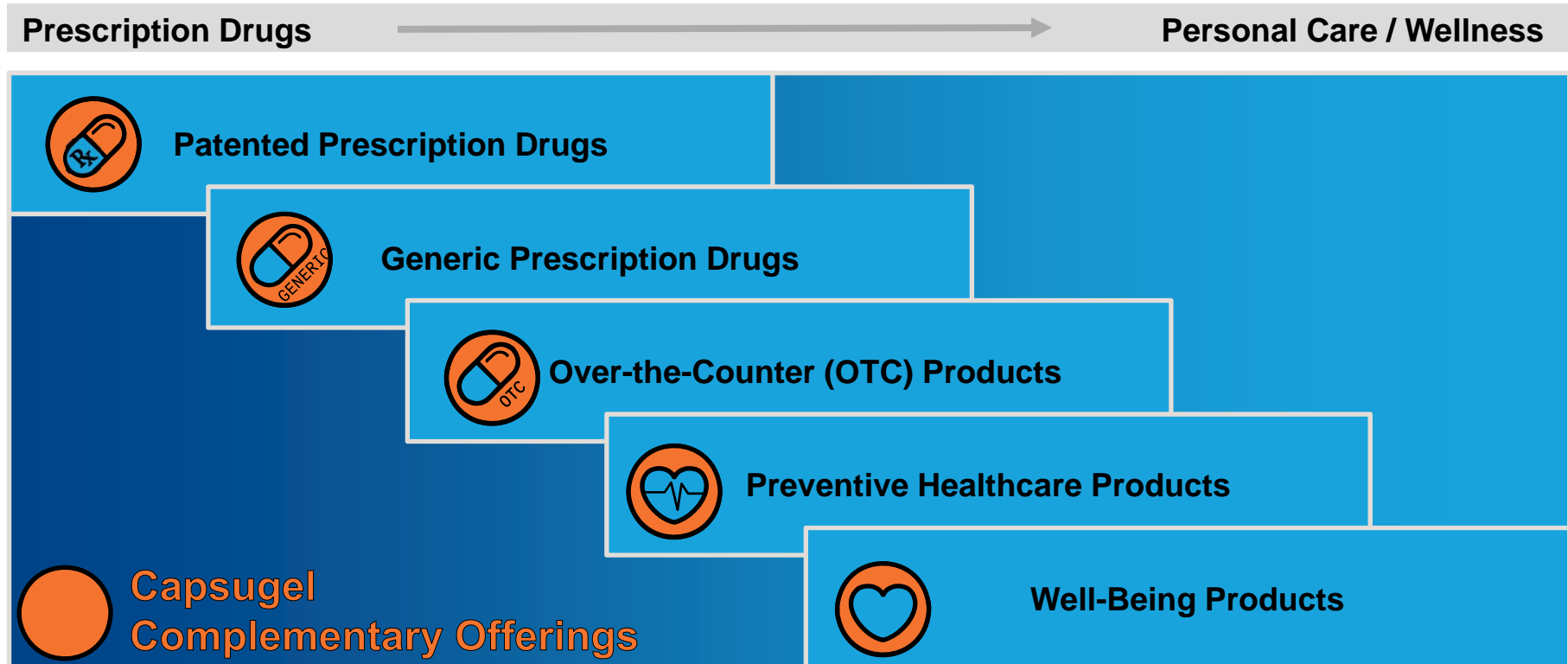
# Transaction Rationale

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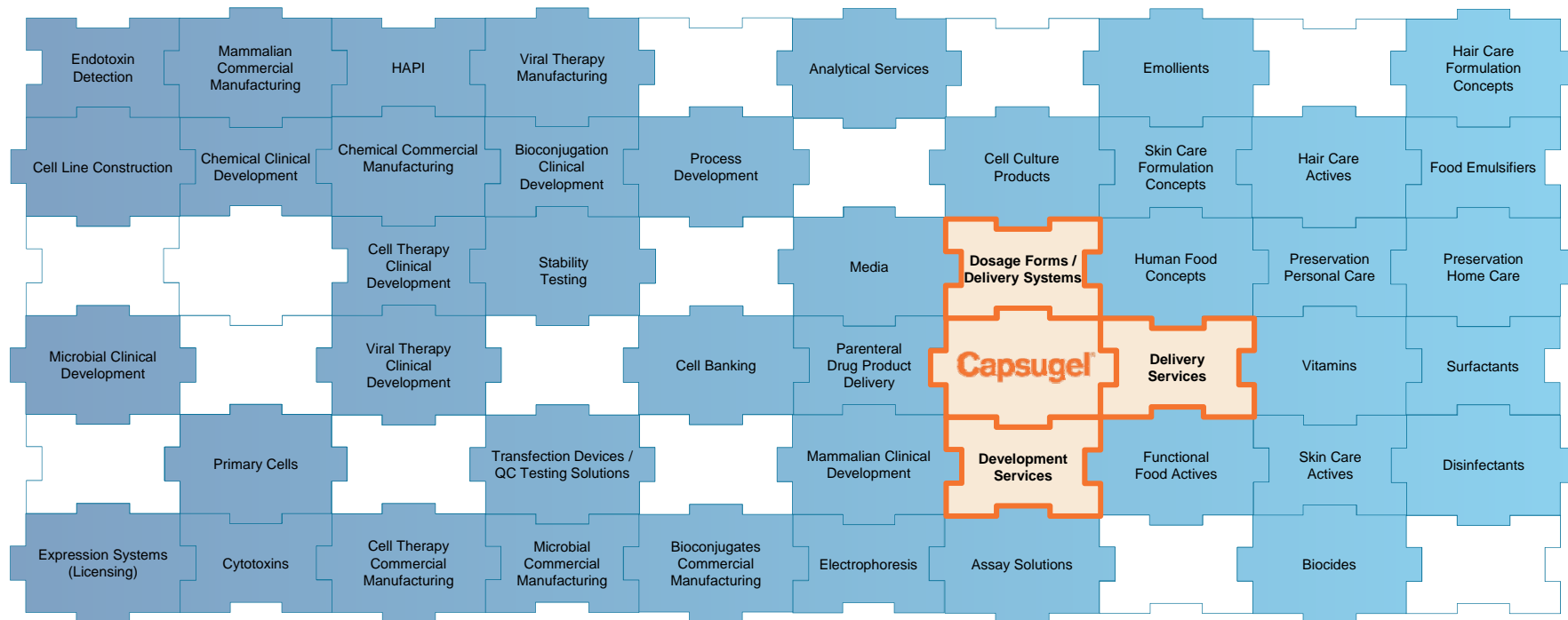
# Acquisition Highly Complements Lonza's Healthcare Continuum



# Adding Oral Delivery Technologies to Our Healthcare Continuum

Prescription Drugs

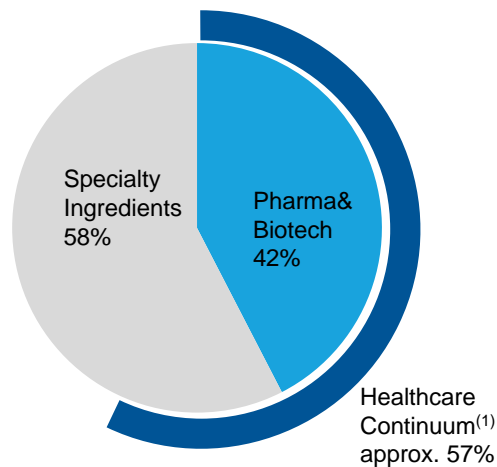
Personal Care / Wellness



# Increases the Proportion of Lonza's Revenues from the Healthcare Continuum

## Lonza

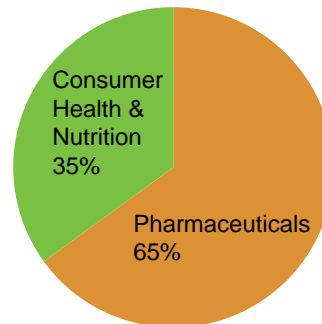
CY 2015 Revenue of CHF 3.8 bn



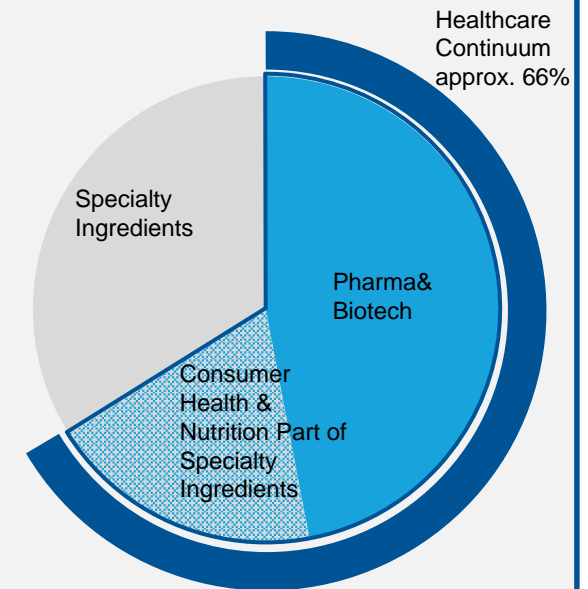
(1) Healthcare Continuum: Comprised of Pharma&Biotech and Consumer Care Business Revenues

## Capsugel

CY 2015 Revenue of USD 1.0 bn



## Combination Increases Healthcare Continuum Share

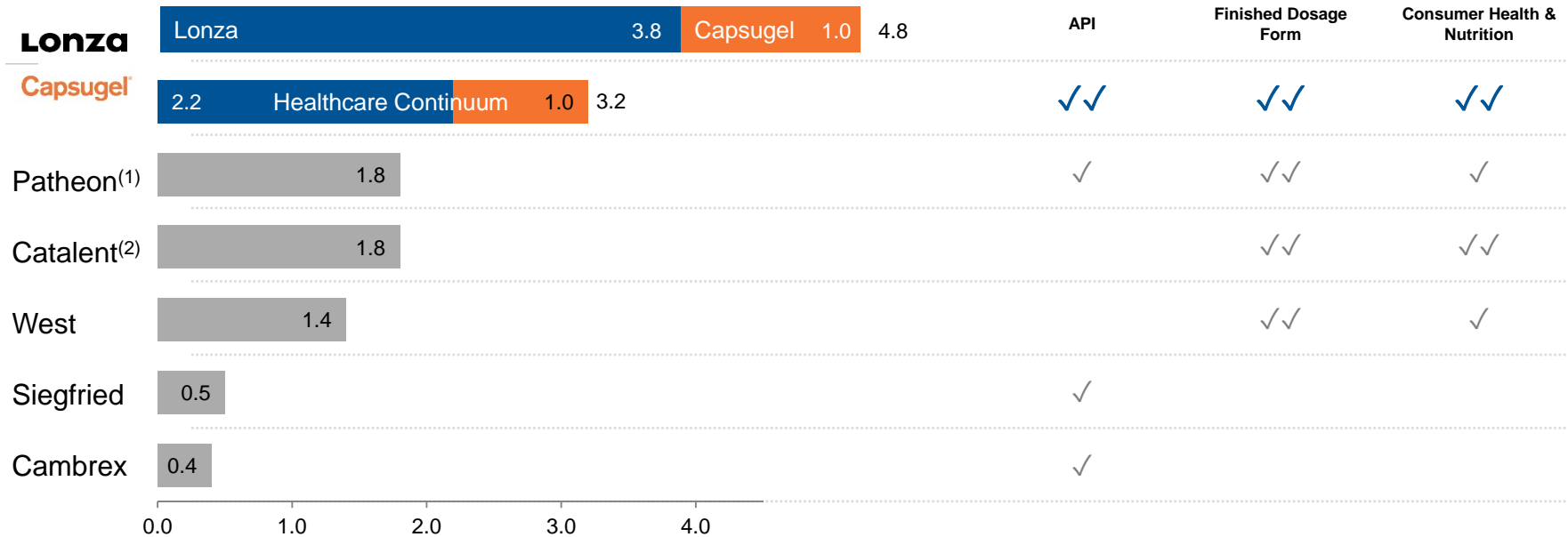


# Enhances Global Scale and Competitive Position Through Integrated Capabilities

## Leadership with Significant Scale

## Leading Player with Integrated Capabilities

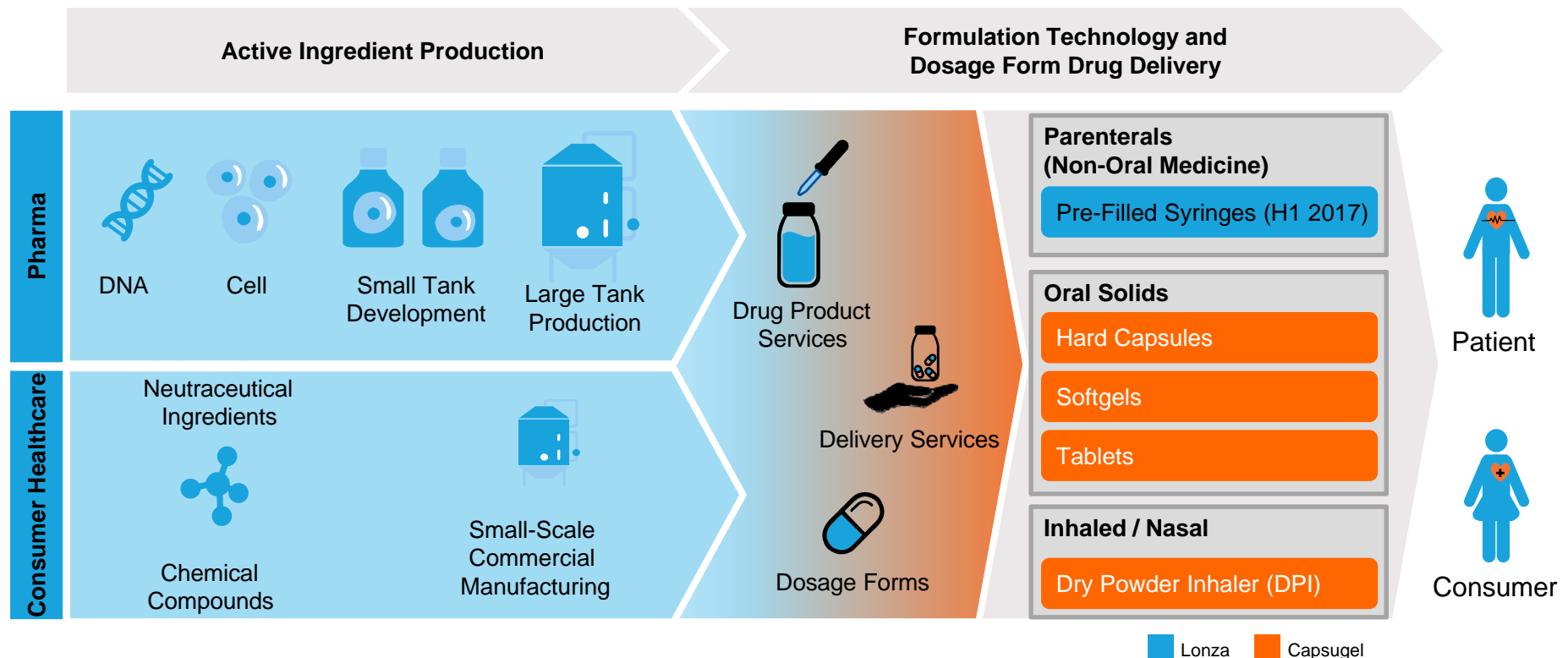
(FY 2015; CHF bn)



Note: Healthcare Continuum: Comprised of Lonza Pharma&Biotech, Consumer Care Business Revenues and Capsugel total revenue

✓ Existing presence    ✓✓ Leading position

# Creates a Fully Integrated Development, Manufacturing and Delivery Technology Partner



# Uniquely Positioned to Address Evolving Challenges of Our Customers

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- Global scale
- Synergistic technologies
- Integrated offerings accelerate innovation
- Deep scientific bench and strategic partnerships
- World-class manufacturing strategically located near customers

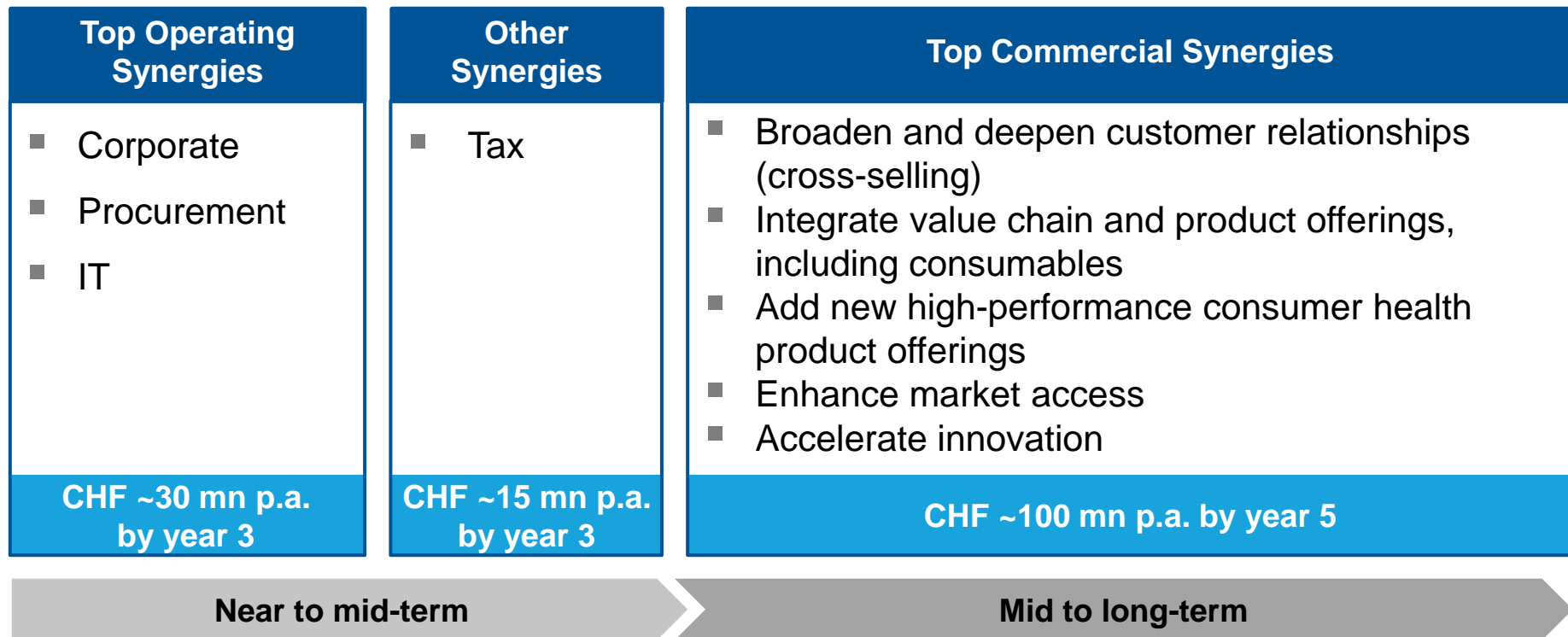
## Pharma

- Meets desire for targeted therapies
- Shortens development timelines
- Reduces risk / unpredictability
- Rationalizes suppliers to reduce cost

## Consumer Healthcare

- Establishes faster route to market
- Meets changing consumer needs and desires
- Meets demand for greater quality
- Creates greater differentiation in competitive markets

# Highly Complementary Offerings Expected to Enhance Growth and Margin Profile





# Financial Impact

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# Estimated Business Combination Summary 2015

	Lonza Full Year 2015 (CHF mn) <sup>(1),(2)</sup>	Capsugel Full Year 2015 (USD mn) <sup>(1),(2)</sup>	Combined (CHF mn) <sup>(3)</sup>
Revenue	3,803	1,007	4,810
CORE / Adj. EBITDA <sup>(1)</sup>	793	344	1,137
CORE / Adj. EBITDA Margin <sup>(1)</sup>	20.9%	34.1%	23.6%
Operating Cash Flow / Unlevered Free Cash Flow <sup>(2)</sup>	667	239	906
Capital Expenditures	264	84	348
Employees	~9,800	~3,600	~13,400

(1) Lonza standalone CORE EBITDA includes stock-based compensation expense. Capsugel standalone Adjusted EBITDA excludes stock-based compensation expense.

(2) Lonza standalone corresponds to Operating Cash Flow post-Capex. Capsugel standalone corresponds to Unlevered Free Cash Flow post-Capex.

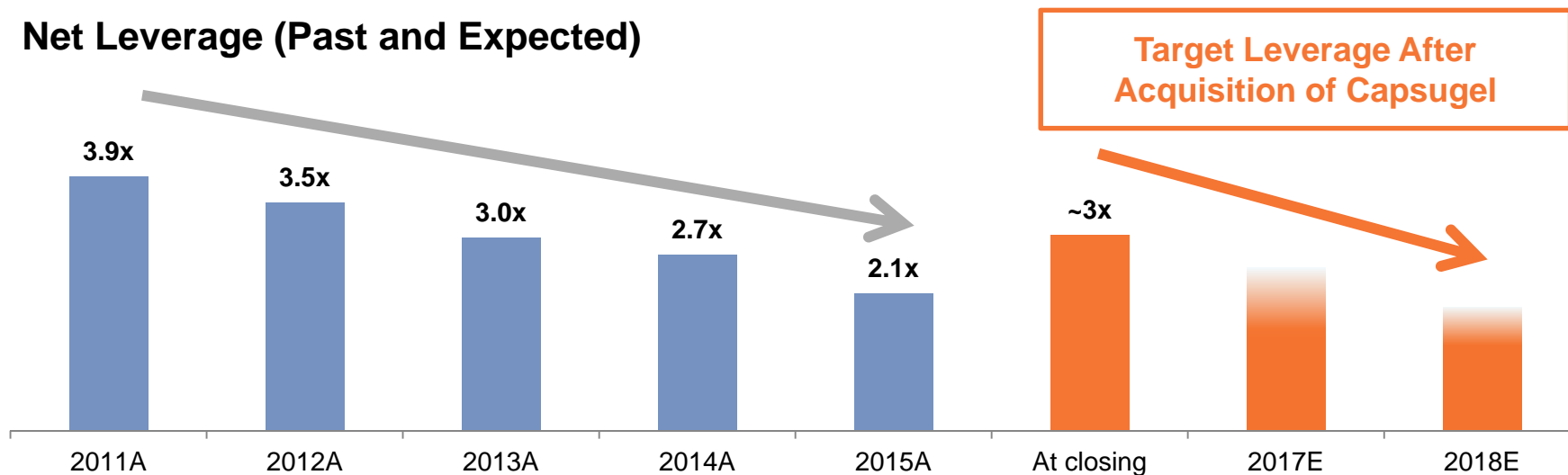
(3) Combination based of sum of Lonza standalone plus Capsugel standalone  
Assumes CHF:USD Exchange Rate of 1.00. CORE definition: see appendix. Does not reflect US GAAP to IFRS adjustments.

# Significant Positive Financial Impact Potential

<b>Enhances Growth</b>	<ul style="list-style-type: none"> <li>Substantial commercial synergies by year 5</li> </ul>
<b>Expands Margins</b>	<ul style="list-style-type: none"> <li>CHF 30 mn of estimated annual operational synergies potential by year 3</li> <li>CHF 15 mn of estimated tax synergies potential by year 3</li> <li>Expands combined CORE EBITDA margins by ~250 bps by year 3</li> </ul>
<b>Delivers Accretion</b>	<ul style="list-style-type: none"> <li>Accretive to CORE EPS in first full year post closing<sup>(1)</sup></li> </ul>
<b>Enhances RONOA</b>	<ul style="list-style-type: none"> <li>CORE RONOA &gt;27% in first full year post closing</li> </ul>
<b>Improves Cash Flow</b>	<ul style="list-style-type: none"> <li>Strong free cash flow generation to rapidly de-leverage and at the same time continues to fund growth</li> </ul>
<b>Maintains Dividend</b>	<ul style="list-style-type: none"> <li>Dividend policy unchanged</li> </ul>

# Proven Track Record of De-Leveraging

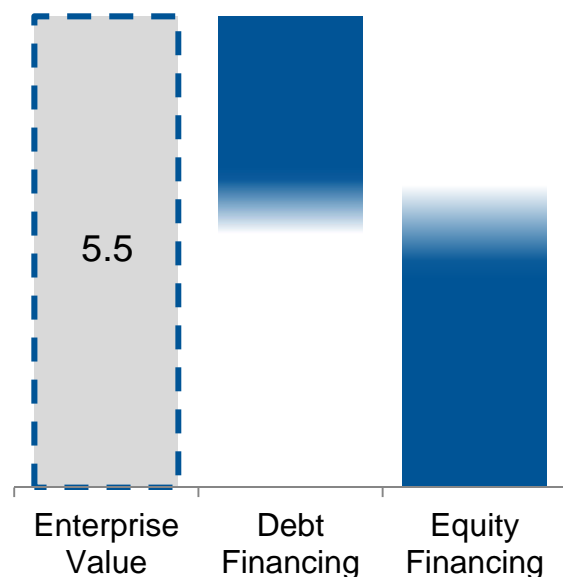
Net Leverage (Past and Expected)



- Target to de-leverage to around current levels by year 2
- Combined 2015 annual operating cash flow of ~CHF 906 million<sup>(1)</sup>

# Capsugel Transaction Financing

## Financing Structure (CHF bn)<sup>(1)</sup>



## Financing Terms

**Fully committed bank financing from Bank of America Merrill Lynch and UBS of USD 6.2 billion**

- USD 4.5 billion bridge facility
- USD 1.0 billion term loan
- CHF 700 million revolving credit facility

**Standby equity underwriting from UBS and Bank of America Merrill Lynch of up to CHF 3.3 billion**

**No change in financing strategy**

- Targeting around 3x pro-forma net debt / EBITDA
- Maintaining current investment grade rating<sup>(2)</sup>

**Final financing structure to include new equity, term loan and debt capital markets instruments**



# Transaction Timetable

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# Expected Transaction Timetable

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- Announcement: 15 December 2016
- Debt syndication expected to commence early January
- Lonza AGM: 25 April 2017
- Equity funding: first half of 2017
- Regulatory approval expected by second quarter 2017
- Closing expected in the second quarter 2017



## Conclusion

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# Accelerating Growth Along the Healthcare Continuum

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- ◆ Excellent deal **strategically** – further sharpens our **market focus**
- ◆ Fully addresses **customer needs** with broad solutions
- ◆ **Leading integrated solutions provider** leveraging strong innovation
- ◆ Expected to be **earnings accretive** from the first full year post closing
- ◆ Sound financing structure – **strong cash-flow generation**





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# A Successful Combination for the Future

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*“Driving Excellence in Quality to  
Create Value for Our Customers”*



# Appendix

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# Capsugel: Key Financials


<i>(USD mn)</i>	2012	2013	2014	2015	LTM Sep-2016
<b>Revenue</b>	<b>879</b>	<b>960</b>	<b>1,065</b>	<b>1,007</b>	<b>1,068</b>
<i>% growth</i>	3.3%	9.2%	10.9%	(5.4%)	
<b>Gross Profit</b>	<b>386</b>	<b>432</b>	<b>484</b>	<b>472</b>	<b>501</b>
<i>% margin</i>	43.9%	45.0%	45.4%	46.9%	
<b>SG&amp;A and Corporate R&amp;D</b>	<b>176</b>	<b>189</b>	<b>204</b>	<b>188</b>	<b>198</b>
<i>% of sales</i>	20.0%	19.7%	19.2%	18.7%	
<b>EBIT</b>	<b>211</b>	<b>243</b>	<b>280</b>	<b>284</b>	<b>303</b>
<i>% margin</i>	24.0%	25.3%	26.3%	28.2%	
<b>Adj. EBITDA</b>	<b>263</b>	<b>300</b>	<b>340</b>	<b>344</b>	<b>364</b>
<i>% margin</i>	29.9%	31.3%	31.9%	34.1%	
<b>Capex</b>	<b>68</b>	<b>51</b>	<b>89</b>	<b>84</b>	<b>82</b>
<i>% of sales</i>	7.7%	5.3%	8.4%	8.3%	

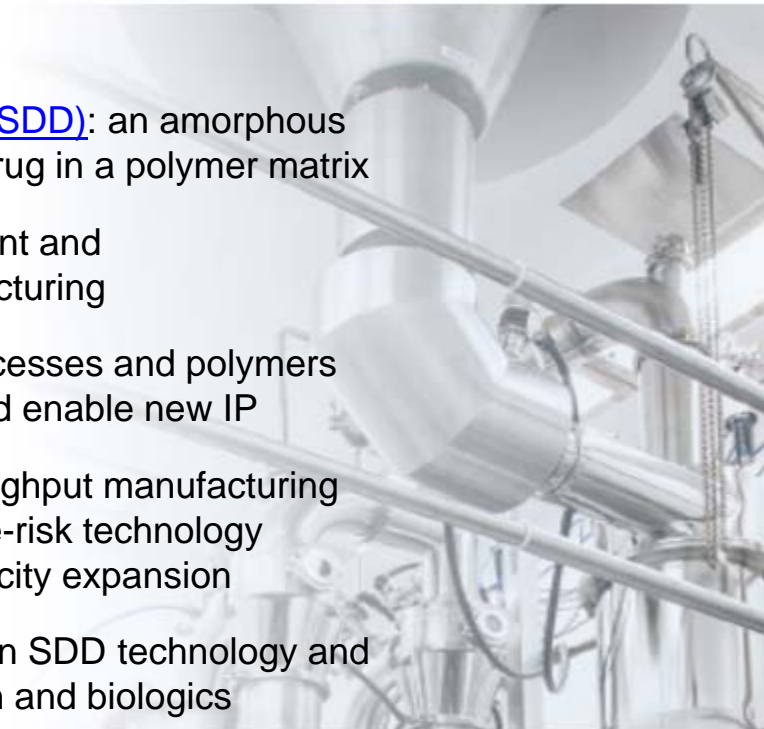
# Capsugel Innovation Example: Spray-Dried Dispersion

## Industry Need

- >50% of marketed drug products include poorly soluble APIs
- ~90% of new compounds have poor bioavailability attributed to dissolution or solubility
- Improving solubility as a formulation goal

## Capsugel Offering

-  [Spray-Dried Dispersion \(SDD\)](#): an amorphous molecular dispersion of a drug in a polymer matrix
- Product design, development and clinical/commercial manufacturing
- Proprietary equipment, processes and polymers to optimize formulations and enable new IP
- Next-generation, high-throughput manufacturing technology to accelerate/de-risk technology transfer, scale-up and capacity expansion
- Integrated offerings between SDD technology and capsules, tablets, inhalation and biologics



# Capsugel Innovation Example: Pediatric Formulations

## Industry Need

- Pediatric-friendly dosage form for clinical trial and commercial use to expand addressable market segment for a new drug
- Easier to swallow than adult tablets and easier to administer than existing liquid forms

## Capsugel Offering

- Combination of technologies that ease swallowing, improve taste, assure correct dosing and potentially improve solubility, in a unique, convenient final dosage form
  - ☒ [Multiparticulates](#): Beads, mini-tablets and microspheres, with range of modified release options
  - ☒ [Taste-Masking](#): Conceals unwanted/undesired taste
  - ☒ [Coni-Snap® Sprinkle Capsules](#): Easy-to-open capsule containing multi-particulates to be sprinkled/mixed with food
- In various trial phases with customers for pediatric epilepsy and pediatric oncology products



## CORE Results as Defined by Lonza

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Lonza believes that disclosing CORE results of the Group's performance enhances the financial markets' understanding of our company because the CORE results enable better comparison across years.

Therefore, the CORE results exclude exceptional items such as restructuring charges, impairments and amortization of acquisition-related intangible assets, which can differ significantly from year to year. For this same reason, Lonza uses these CORE results in addition to IFRS as important factors in internally assessing the Group's performance.

## Adjusted Earnings as Defined by Capsugel

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Based on Capsugel management Quality of Earnings report which includes non-recurring adjustments for non-cash compensation, sponsor and board fees, restructuring costs, non-controlling interest, public company readiness and other one-time costs.