

Lonza Completes Acquisition of Capsugel

Q&A

1. When did Lonza acquire Capsugel?

Lonza announced on 6 July 2017 that the acquisition of Capsugel S.A. ("Capsugel") was completed. This followed the clearance by all regulatory authorities.

2. Why did Lonza acquire Capsugel?

The acquisition of Capsugel, a world leader in advanced oral dosage delivery technologies, with a leading position in hard capsules, is in line with Lonza's stated strategy to accelerate growth and deliver value along the healthcare continuum.

3. What are the top-line details of the transaction?

Capsugel was purchased from KKR for USD 5.5 billion in cash, including refinancing of existing Capsugel debt of approximately USD 2 billion.

4. How did Lonza finance the acquisition of Capsugel?

The acquisition was financed partially through the net proceeds of the successful placement of 5 million new shares at CHF 173.00 per share with total gross proceeds of CHF 865 million, which was completed in February 2017, as well as the issuance of 16,548,612 fully paid registered shares, with gross proceeds in the amount of CHF 2.26 billion, which was completed in May 2017.

The balance of the acquisition price was financed through indebtedness.

5. Has the acquisition of Capsugel changed Lonza's leverage profile?

Lonza expects to retain a leverage profile of ~3x net debt/EBITDA target at closing and to maintain its unofficial investment-grade credit rating assigned by a number of Swiss banks.

6. What does the acquisition of Capsugel mean for Lonza?

The acquisition of Capsugel by Lonza means that Lonza is now a fully integrated solutions provider in oral delivery technologies and active ingredients to the pharmaceutical, consumer healthcare and nutrition markets.

With the offering of both Lonza and Capsugel combined, Lonza is now positioned as the development, formulation, delivery technology and manufacturing partner of choice for the pharmaceutical industry.

7. What does the acquisition of Capsugel mean to Lonza's customers?

Pharmaceutical, consumer healthcare and nutrition customers will benefit.

Lonza has added a trusted brand with a large breadth of technologies, so Lonza now offers an integrated portfolio of industry-leading technologies, from active pharmaceutical ingredients (APIs) through excipients to dosage forms and delivery technologies.

Customers will also gain from the simplicity and the efficiency of working with one company.

The combined business allows Lonza to partner with its customers to help them bring highly-differentiated, innovative products to market more quickly and efficiently in large and small molecules.

8. What does Capsugel bring to Lonza?

As the global leader in providing high-quality, innovative dosage forms, technologies and solutions to the biopharmaceutical and consumer health and nutrition industries, Capsugel brought:

- 3,600 employees
- 13 manufacturing facilities including 3 R&D centers
- Locations in 9 countries on 3 continents
- Relationships with >4000 customers in 100 countries

9. What is the Capsugel track record?

Capsugel has a strong track record. In 2016 Capsugel produced 200 billion empty two-piece capsules. The full-year 2016 turnover of ~USD 1 billion was divided approximately:

- 35% – Consumer Health and Nutrition
- 65% – Biopharma Products
- Regional split: 47% Americas, 36% EMEA, 17% Asia

With more than 4,000 customers in more than 100 countries, Capsugel is known for rapidly growing businesses in specialized formulation, dosage delivery and development services.

10. Why does Lonza believe the Capsugel integration will be "seamless"?

The integration is facilitated because Lonza and Capsugel:

- have a highly complementary customer base and market approach
- complementary business models
- closely aligned corporate cultures
- a strong commitment to ethics and compliance
- a strong quality and regulatory track record

11. What are the expected financial synergies?

Lonza expects to achieve CHF ~30 million p.a. operating synergies, CHF ~15 million p.a. tax synergies, both by year three, and CHF ~100 million p.a. top-line synergies by year five.

12. Does Lonza expect headcount reductions as result of this acquisition?

The focus of this transaction is to gain benefits from positive top-line and innovation synergies while also leveraging Capsugel's talent. That's why a seamless integration is being executed while continuing the strong growth trajectory of the Capsugel business. Lonza believes that the step-by-step integration process preserves the strong innovation culture.

13. Will Capsugel become a new Lonza segment or will it be integrated into the existing Lonza segments Pharma&Biotech and Specialty Ingredients?

Capsugel will continue to operate in its existing structure at this time.

However, the two Capsugel business units (Biopharmaceutical, Consumer Health & Nutrition) will now report into Lonza segments:

- Biopharma will report into Lonza Pharma&Biotech
- Consumer Health & Nutrition will report into Lonza Specialty Ingredients

The remaining areas of the Lonza Specialty Ingredients will be reported separately as of 2018.

14. Does Lonza have a track record of integrating companies?

Lonza has successfully integrated many acquisitions over the last years, including broader ones like Arch in 2011, and more targeted ones like InterHealth in 2016.

Regarding Capsugel, both companies have complementary businesses and more importantly share a set of similar cultures.

15. Will Lonza's headquarters remain in Switzerland?

Lonza will continue to have headquarters in Basel, Switzerland, where the Board of Directors will continue to be based. Lonza continues to be listed on stock exchanges in Switzerland (SIX) and in Singapore (SGX).

16. How is Lonza now described following the closure with Capsugel?

Following the closing of the Capsugel acquisition, Lonza further strengthened its position as one of the world's leading and most-trusted suppliers to the pharmaceutical, biotech and specialty ingredients markets. Lonza harnesses science and technology to create products that support safer and healthier living and that enhance the overall quality of life.

An integrated solutions provider serving the healthcare continuum, Lonza offers products and services from the custom development and manufacturing of active pharmaceutical ingredients to innovative dosage forms for the pharma and consumer health and nutrition industries. In addition to drinking water sanitizers, nutraceuticals, antidandruff agents and other personal care ingredients, the company provides agricultural products, advanced coatings and composites and microbial control solutions that combat dangerous viruses, bacteria and other pathogens.

Founded in 1897 in the Swiss Alps, Lonza today is a well-respected global company with more than 50 major manufacturing and R&D facilities and nearly 14,000 full-time employees worldwide. Further information can be found at www.lonza.com.

17. Where can I found out more?

Further information can be found at www.lonza.com.

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