

Lonza Group AG

Europe Satellite*

Recommended since 08.01.2019

22.07.2022



Country CH	Market capitalization (bn) CHF 43.6	Perf. since reco. (%)
Sector Health Care	Free float 99.6%	Lonza Group AG 115.9
Factset LONN-CH	Closing price CHF 585.00	Sector 45.4
ISIN CH0013841017	ESG Risk score* 16.5 Low risk	



Profile

As a contract development and manufacturing organization (CDMO), Lonza is a leading supplier to the pharmaceutical and biotechnology industry and academic research. The business is divided into four divisions: 1/ Biologics (48% of sales), which includes monoclonal antibodies, antibody drug conjugates, complex proteins and recombinant proteins ; 2/ Capsule & Health Ingredients (26%), which specializes in the production of capsules ; 3/ Small molecules (15%), which is dedicated to active pharmaceutical ingredients for small molecules ; and 4/ Cell & Gene (11%), which offers technologies for the development and scale of cell and gene therapies.

Strengths/opportunities

- High track-record and recognition within the sector.
- Comprehensive range of products & services for a highly diversified customer base, making the company a key player. Long term contracts.
- Growth drivers in cell and gene therapies.

Investment case

- Lonza has gradually established a consistent and complementary business model in healthcare, offering its customers a comprehensive range of products and services covering the lifecycle of the drug, from clinical development to commercialisation. As a key CDMO player, this strategy strengthens Lonza's positioning vis-à-vis the pharma and biotech industry. The underlying market is expected to grow at an average of c. 8% per year, offering development opportunities and medium to long-term visibility. Lonza is already positioning itself in emerging technologies (cell and gene therapies), which will contribute to growth from 2022 onwards.
- By 2024, Lonza expects sales to grow between 10% and 13% per year and EBITDA margin to improve to 33%-35% (from 30.8% in 2021). However, the rate of growth will be higher in 2022, with an expected increase in sales of between 12% and 15%. These targets imply EPS growth of 19.5% on average/year over the next three years. In view of the long-term opportunities, investments in new projects will remain high over the period (capex close to 25% of sales), limiting the company's profitability, but a return to 15% is anticipated from 2025. These investments will support long-term growth (post-2024).

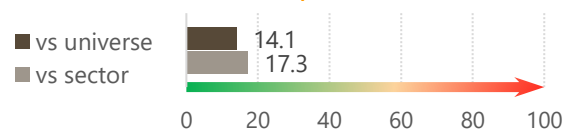
Weaknesses/threats

- Industrial and reputational risk in the event of warnings from health authorities about the compliance of production sites.
- Risk in the event that pharmaceutical companies reintegrate their production in-house.

Valuation

High valuation in PE, justified by the long term growth profile. While 2021 is marked by the deconsolidation of the LSI division, the pace of EPS growth accelerates from 2022 onwards (+19.5% on average/year over 2021-24), resulting in a PEG(2021-24) of 1.9x.

ESG risk vs. universe & sector (percentile)*



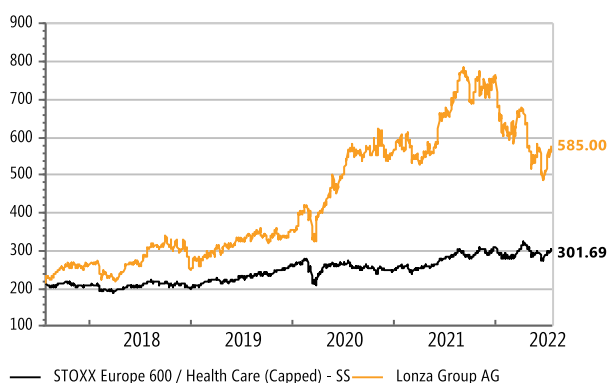
CHF	12/2021	2022e	2023e
Sales revenue (mio)	5'409	6'195	6'951
Sales growth	20.0%	14.5%	12.2%
EBIT adjusted (mio)	1'049	1'414	1'649
% of sales	19.4%	22.8%	23.7%
Net income (mio)	944	1'116	1'311
Net income growth	-15.3%	18.3%	17.5%
FCF/Sales	-1.5%	-1.1%	1.3%
Net debt/Ebitda	-0.3x	0.0x	0.0x
Dividend yield	0.5%	0.6%	0.6%
PE	46.3x	37.5x	32.0x
P/BV	4.4x	4.1x	3.7x

Factset estimates

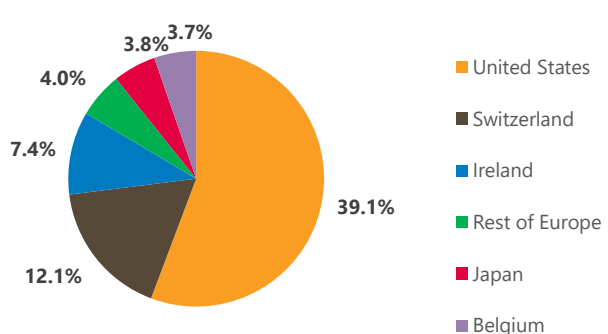
ESG - risks and key points

- Lonza's exposure to ESG risks is low.
- Product quality and safety are essential, implying an industrial, financial, and reputational risk in case of failure.
- Lonza's success is based on its ability to attract/retain professionals with sound scientific expertise.
- Cell and gene therapies are innovative breakthroughs but are also controversial in terms of their ethical implications.

5-year performance vs sector



Sales breakdown - 12/2021



*: see overleaf

Source: Factset, Sustainalytics

Glossary

Satellite

From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely to outperform in the short-to-medium term.

ESG Risk Score

At B&Cie, we take particular care to ensure that the companies in which we recommend investing are sustainable. Accordingly, our selection process takes account of risks relating to environmental, social and governance (ESG) issues. This approach is underpinned by research from Sustainalytics, the global leader in ESG and corporate governance analysis, whose methodology aims to identify major controversies and risks and assess a company's ESG risks relative to both its sector and the investment universe as a whole. The corresponding score is expressed as a percentile: the lower the overall risk score, the lower the risk within the investment universe.

b-Digital, b-Transition & b-Well

Over and above the conventional geographical and sectoral approaches to asset management, at B&Cie we believe the world of tomorrow is being shaped by structural trends. We have identified three main megatrends: ongoing digital globalisation of the economy; economic transition, particularly in the energy sector; and the quest for wellness. We believe selecting and investing in companies that play an active role in these transformations should lead to more resilient portfolios that generate higher long-term returns. Our investment recommendations in the digital globalisation space are labelled "b-Digital", those in the economic transition space "b-Transition" and those in the wellness space "b-Well". A given recommendation may fall under more than one theme, in which case it will carry the relevant matching labels.

Offices & Branches

Bordier & Cie Genève

Rue de Hollande 16
CH-1204 Genève
Case postale
CH-1211 Genève 3
T + 41 58 258 00 00
F + 41 58 258 00 40

Bordier & Cie Berne

Spitalgasse 40
Case postale
CH-3001 Berne
T + 41 58 258 07 00
F + 41 58 258 07 10

Bordier & Cie Nyon

Rue de la Porcelaine 13
CH-1260 Nyon
Case postale 1045
CH-1260 Nyon 1
T + 41 58 258 07 50
F + 41 58 258 07 70

Bordier & Cie Zurich

Talstrasse 83
CH-8001 Zürich
T + 41 58 258 05 00
F + 41 58 258 05 50

Bordier & Cie (France) S.A.

1, rue François 1er
75008 Paris – France
T + 33 1 55 04 78 78
F + 33 1 49 26 92 48

Bordier & Cie (Uruguay) S.A.

Edificio Beta 3, oficina 102
Zonamerica
91600 Montevideo
Uruguay
T + 598 2 518 2700
F + 598 2 518 2703

Bordier & Cie (Singapore) Ltd

CapitaGreen #14-00
138 Market Street
Singapore 048946
T + 65 6239 9999
F + 65 6239 9998

Bordier Bank (TCI) Ltd

Leeward Highway
Caribbean Place
Providenciales
Turks and Caicos
T + 1 649 946 45 35
F + 1 649 946 45 40

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