

## Europe Satellite\*

Recommended since 08.01.2019

27.06.2023



<b>Country</b> CH	<b>Market capitalization (bn)</b> CHF 38,8	<b>Perf. since reco. (%)</b>
<b>Sector</b> Health Care	<b>Free float</b> 99,6%	Lonza Group AG 92,5
<b>Factset</b> LONN-CH	<b>Closing price</b> CHF 521,80	Sector 43,6
<b>ISIN</b> CH0013841017	<b>ESG Risk score*</b> 16,4 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 its positioning within the pharmaceutical & biotechnology 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. The company is already positioning itself in emerging technologies (cell and gene therapies), which will contribute to growth from 2022 onwards. Investments will therefore remain high in the medium term (capex close to 25% of sales), but a return to 15% is anticipated post-2025.
- In 2023, sales will be up by 8-9% at constant exchange rates, but Lonza will be negatively impacted by cost inflation and the ramp-up of new projects. Pressure is expected on the EBITDA margin, estimated at between 30% and 31% (vs. 32.1% in 2022). This makes the 2024 outlook ambitious, with sales growth of 10-13% per year and an improvement in EBITDA margin to 33-35%. However, the consensus is well below this, with a margin of 32%, which we believe is achievable. This level implies a sustained EPS growth of 15% on average/year.

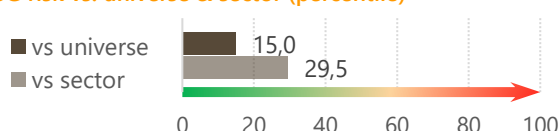
### Weaknesses/threats

- 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

The valuation appears high in PE terms, but is justified by the growth profile (+15% on average/year over 2022-24). PEG(2022-24) stands at 1.78x (below 2x), which is once again more reasonable.

### ESG risk vs. universe & sector (percentile)\*



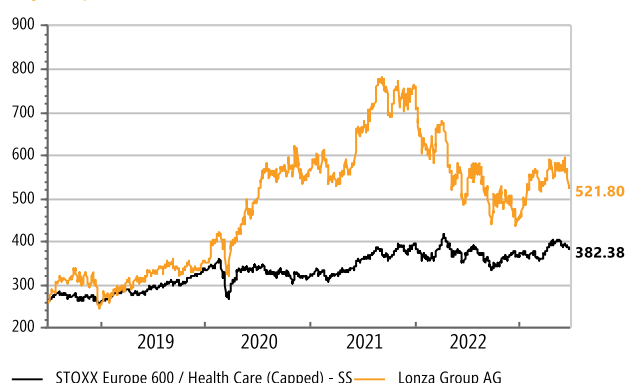
CHF	12/2022	2023e	2024e
Sales revenue (mio)	6 223	6 615	7 460
Sales growth	15,0%	6,3%	12,8%
EBIT adjusted (mio)	1 455	1 408	1 745
% of sales	23,4%	21,3%	23,4%
Net income (mio)	1 130	1 078	1 334
Net income growth	19,7%	-4,6%	23,8%
FCF/Sales	-12,7%	-2,1%	1,1%
Net debt/Ebitda	0,2x	0,8x	1,1x
Dividend yield	0,7%	0,7%	0,8%
PE	34,4x	34,0x	26,9x
P/BV	3,7x	3,6x	3,4x

Factset estimates

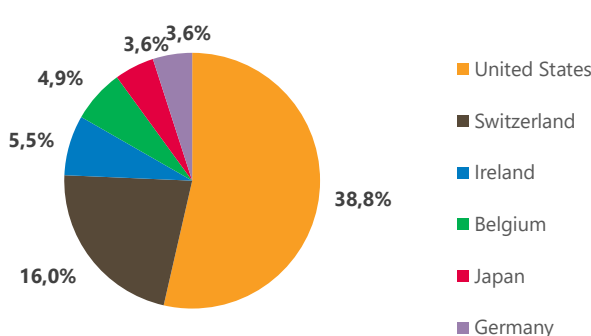
### ESG - risks and key points

- 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 - 12/2022



\*: see overleaf

# 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.

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