

Lonza Group AG

Europe Satellite*

Recommended since 08.01.2019

18.12.2024



Country CH	Market capitalization (bn) CHF 39,1	Perf. since reco. (%)
Sector Health Care	Free float 97,0%	Lonza Group AG 99,8
Factset LONN-CH	Closing price CHF 541,40	Sector 56,4
ISIN CH0013841017	ESG Risk score* 14,2 Low risk	



Profile

Lonza is a contract development and manufacturing organization (CDMO) for the biopharmaceutical sector. Reorganization and refocusing of business on three divisions: 1/ Integrated Biologics (42,5% of sales): biopharmaceutical products derived from mammalian cells (monoclonal antibodies, bispecific antibodies, recombinant proteins); 2/ Advanced Synthesis (25,5%): small molecules and bioconjugates (antibody-drug conjugates, antibody-oligonucleotide conjugates, etc.)., 3/ Specialized Modalities (17%): technologies for developing and deploying cell and gene therapies, messenger RNA, microbial fermentation (vaccines, complex proteins), and bioscience products & services (cell cultures, quality control tests, software...). Eventual divestment of the Capsules & Health Ingredients division (15% of sales).

Strengths/opportunities

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

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

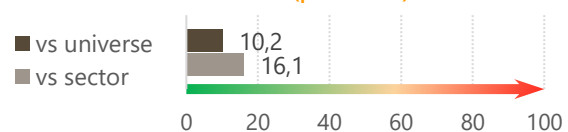
Investment case

- As a leader in the CDMO market, Lonza has gradually built up a model of complementary and homogeneous activities in the healthcare sector, enabling it to offer its customers a complete range of products and services covering the entire life cycle of a drug, from clinical development to marketing. The underlying market is expected to grow by 8-10%/year, offering development opportunities and medium-to-long-term visibility.
- Capital expenditure is high, with 22 manufacturing projects under development, and is weighing on margins in the short term. But their contribution to sales growth will be visible from 2025, and will enable Lonza to outperform its peers by 2-3%/year. Furthermore, their ramp-up will lead to a clear improvement in margins. The 2024-28 targets imply sales growth of 10-13%/year and EPS growth of 18-20%/year.
- In addition, the proposed BIOSECURE Act in the USA, aimed in particular at suspending government funding to biopharmaceutical companies with links to certain Chinese subcontractors, represents a medium-term opportunity for American and European companies, and Lonza is particularly well positioned to take advantage of it.

Valuation

The valuation appears high in PE terms (PE 2025 = 32,9x), but is justified by the growth profile (+19% on average/year over 2024-28). PEG (2024-28) is attractive at 1.7x (below 2x).

ESG risk vs. universe & sector (percentile)*



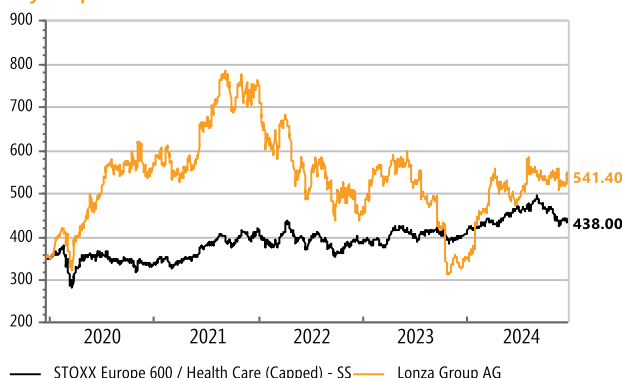
CHF	12/2023	2024e	2025e
Sales revenue (mio)	6 717	6 571	7 711
Sales growth	7,9%	-2,2%	17,4%
EBIT adjusted (mio)	1 151	1 220	1 488
% of sales	17,1%	18,6%	19,3%
Net income (mio)	914	960	1 151
Net income growth	-19,1%	5,1%	19,9%
FCF/Sales	-3,5%	-1,3%	4,5%
Net debt/Ebitda	1,0x	1,7x	1,5x
Dividend yield	0,7%	0,8%	1,0%
PE	43,7x	39,8x	32,9x
P/BV	4,2x	4,1x	3,9x

Factset estimates

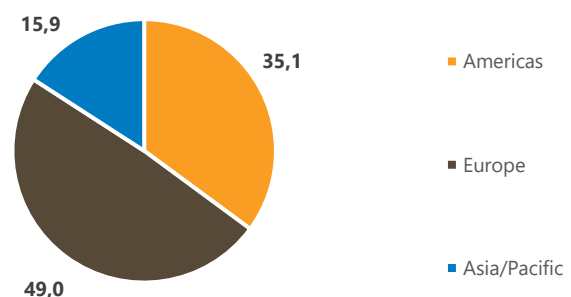
ESG - risks and key points

- 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 - 12/2023



*: 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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