



Lonza to Acquire Capsugel to Create Leading Integrated Solutions Provider to the Global Pharma and Consumer Healthcare Industries

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Strategic Advantages

- Lonza to acquire Capsugel for USD 5.5 billion, including refinancing of existing Capsugel debt of USD ~2 billion
- Acquisition is expected to accelerate Lonza's growth and ability to deliver value along the healthcare continuum
- Acquisition addresses needs of customers for integrated, value-added solutions that accelerate drug and ingredient delivery to patients and consumers
- The combined portfolio offering will position Lonza as the development, formulation, delivery technology and manufacturing partner of choice for the pharma industry
- Lonza will become a fully integrated solutions provider in oral delivery technologies and active ingredients to the consumer healthcare and nutrition markets

Financial Advantages

- Lonza expects to achieve CHF ~30 million p.a. operating synergies and CHF ~15 million tax synergies p.a. by year three and CHF ~100 million p.a. top-line synergies in the mid- to long-term
- Transaction is expected to be CORE EPS accretive in the first full year post closing
- Capsugel's profitable business model and robust cash generation expected to further enhance Lonza's strong financial profile
- Lonza intends to retain current dividend policy and maintain ~3x net debt/EBITDA leverage

Lonza Group AG ("Lonza," VTX: LONN.VX), KKR and Capsugel S.A. ("Capsugel") today announced that they have entered into a definitive agreement under which Lonza will acquire Capsugel from KKR for USD 5.5 billion in cash, including refinancing of existing Capsugel debt of approximately USD 2 billion, through a transaction that has been approved by the Boards of Directors of both Lonza and Capsugel. The transaction will be financed with a combination of debt and equity financing. The EV/adjusted EBITDA multiple for the transaction adds up to 15.1x based on the last 12 months adjusted EBITDA figures up to September 2016.

This acquisition is fully in line with Lonza's stated strategy to accelerate growth and deliver value along the healthcare continuum by complementing its existing offerings and by opening up new market opportunities in the pharma and consumer healthcare and nutrition industries. With the acquisition of Capsugel, Lonza will add a trusted brand with a large breadth of technologies and will expand the market reach of its contract development and manufacturing organization (CDMO) and products businesses. It will also support Lonza's strategic ambition of getting closer to the patient and end consumer.

The acquisition is designed to create a leading integrated, value-added solutions provider in drug development, formulation, delivery technologies and manufacturing for the global pharma and consumer healthcare industries. The combined business will be well positioned to benefit from the dynamics in these industries and to anticipate and address technology trends in order to support the evolving needs of its customers. It will provide additional value by offering an integrated portfolio of industry-leading technologies, from active pharmaceutical ingredients (APIs) through excipients to dosage forms and delivery technologies.

With the addition of Capsugel's world-leading advanced oral dosage delivery technologies, including its leading position in hard capsule technologies, Lonza will become the partner of choice for its pharma customers along the entire value chain. The combined technologies and offerings will provide customers innovative solutions in both large and small molecules and solidify Lonza's position as the partner best able to support the pharma industry by bringing new, differentiated medicines to market rapidly and efficiently.

In addition, the acquisition is expected to strengthen Lonza's position in consumer healthcare and nutrition as Lonza becomes a fully integrated and innovative service provider of active ingredients, oral dosage forms, development services and delivery technologies. As a result Lonza will be well positioned to meet the increasing need for optimized consumer health and nutrition through a wide offering of next-generation dosage forms. The combined business will also be able to leverage its bioavailability technology to create a new dietary ingredient-ready offering, as well as capitalize on its formulation expertise to develop new ingredients and to market new combination products.

The enlarged business would have had combined 2015 revenues of approximately CHF 4.8 billion and adjusted EBITDA of approximately CHF 1.1 billion with an enhanced margin profile. Lonza and Capsugel's highly synergistic customer base and complementary business models will facilitate seamless integration. The combined business will be able to leverage the strong regulatory track record and global footprint of each company.

With approximately 3,600 employees and 13 facilities on three continents, Capsugel has a customer-centric, entrepreneurial and collaborative culture that closely aligns with Lonza's corporate culture. Both companies focus on quality, operational excellence and delivering on promises.

Richard Ridinger, Chief Executive Officer of Lonza, commented, "The acquisition of Capsugel meets Lonza's strategic and financial goals. It accelerates our healthcare continuum strategy by giving us broader exposure to the fast-growing pharma and consumer healthcare markets. We expect the transaction to be accretive to our core earnings per share in the first full year post closing."

He explained further, "This new integrated approach will benefit our customers, who will gain from the simplicity and efficiency of working with one company that can provide world-leading support from APIs to excipients and dosage forms. The combined business will allow us to partner with our customers to help them bring highly differentiated products to market more quickly and efficiently."

Guido Driesen, President and Chief Executive Officer of Capsugel, said, "This transaction brings together two leading companies that share a common vision - to deliver real value to customers by accelerating their ability to develop and commercialize innovative pharmaceutical and healthcare products. The combination of our complementary technology platforms will put us in a strong position to benefit from evolving trends in the pharma and consumer healthcare markets."

He added, "Both companies enjoy a strong quality and regulatory track record, and we believe that the combination enables us to provide the most complete set of tailored and integrated solutions for our customers. We look forward to bringing together our talented teams to deliver science- and engineering-based solutions to customers for the benefit of the patients and consumers who use their products. I am personally committed to making this integration a success."

Pete Stavros, Member of KKR and Head of the Industrials Investing Team, said, "Since acquiring Capsugel five years ago, we have supported Guido and his management team in repositioning the company from a global leader in hard capsules into a specialty CDMO. Capsugel has grown significantly by investing in innovation, strategic acquisitions, product development and geographic expansion. Now Capsugel is well positioned for the next phase of its growth, and we look forward to its continued success as a part of Lonza."

Synergies

The bulk of the benefits resulting from the transaction will be gained from positive top-line and innovation synergies. The highly synergistic customer base, the expanded addressable market and the improved value proposition for the customer will allow Lonza to further leverage its current product and service offerings. Also the acquisition of Capsugel will allow cross-selling of existing products, combine manufacturing solutions and services and create an integrated value offering that merges Lonza's ingredients with Capsugel's dosage forms.

The primary initial focus of this transaction is to ensure a seamless integration while continuing the strong growth trajectory of the Capsugel business. Lonza believes that the step-by-step integration will preserve the strong innovation culture and lead to a combined top-line synergy potential of around CHF 100 million per annum in the mid- to long-term.

Lonza expects to achieve operating synergies of CHF ~30 million per annum, which are expected to be fully realized by year three, in the areas of corporate, procurement and IT, as well as various efficiency gains. In addition, tax synergies of CHF ~15 million per annum are expected.

Lonza anticipates that the transaction will be accretive to its CORE Earnings per Share (EPS) from the first full year post closing onwards and intends to retain its current dividend policy.

Financing and Approvals

The USD 5.5 billion all-cash acquisition of Capsugel will be financed with a combination of debt and equity financing. Lonza has committed debt financing for the full acquisition amount from BofA Merrill Lynch and UBS and plans to raise equity, which is fully underwritten by UBS and BofA Merrill Lynch for an amount up to CHF 3.3 billion.

Lonza's Board of Directors is currently authorized to increase the share capital through the issuance of 5,000,000 fully paid-in registered shares. Lonza's Board intends to seek approval for additional share capital at its upcoming annual general meeting (AGM) in April 2017.

Lonza expects to retain a leverage profile around ~3x net debt/EBITDA at closing and to maintain its unofficial investment-grade credit profile assigned by a number of Swiss banks. Lonza believes that the strong projected cash flow of the combined company will enable rapid de-leveraging after the acquisition and continue to support all planned growth initiatives.

The financial package foresees the refinancing of Lonza's current CHF 700 million revolving credit facility.

The transaction is expected to close in the second quarter of 2017 and is subject to certain regulatory approvals and other customary closing conditions.

Additional information about Lonza can be found on www.lonza.com, about Capsugel on www.capsugel.com, and about the acquisition on the dedicated transaction website www.TheFutureLonza.com, which may be updated from time to time.

Jefferies LLC is serving as lead financial adviser to Lonza. UBS AG and BofA Merrill Lynch also provided financial advice. Jenner & Block

LLP is serving as Lonza's legal counsel. Goldman Sachs is serving as sole financial adviser to Capsugel. Simpson Thacher & Bartlett LLP is serving as Capsugel's legal counsel.

About Lonza

Lonza is one of the world's leading and most-trusted suppliers to the pharmaceutical, biotech and specialty ingredients markets. We harness science and technology to create products that support safer and healthier living and that enhance the overall quality of life.

Not only are we a custom manufacturer and developer, Lonza also offers services and products ranging from active pharmaceutical ingredients and stem-cell therapies to drinking water sanitizers, from the vitamin B3 compounds and personal care ingredients to agricultural products, and from industrial preservatives to 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 40 major manufacturing and R&D facilities and approximately 9,800 full-time employees worldwide. The company generated sales of CHF 3.8 billion in 2015 and is organized into two market-focused segments: Pharma&Biotech and Specialty Ingredients.

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

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About Capsugel

Capsugel designs, develops and manufactures a wide range of innovative dosage forms for the biopharmaceutical and consumer health and nutrition industries. Our unique combination of science, engineering, formulation and capsule expertise enables our customers to optimize the bioavailability, targeted delivery and overall performance of their products.

We partner with more than 4,000 customers in over 100 countries to create novel, high-quality and customized solutions that align with our customers' evolving needs and benefit patients and consumers. For more information, visit www.capsugel.com and follow us on Twitter, LinkedIn and YouTube.

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KKR is a leading global investment firm that manages investments across multiple asset classes including private equity, energy, infrastructure, real estate, credit and hedge funds. KKR aims to generate attractive investment returns by following a patient and disciplined investment approach, employing world-class people, and driving growth and value creation at the asset level. KKR invests its own capital alongside its partners' capital and brings opportunities to others through its capital markets business. References to KKR's investments may include the activities of its sponsored funds. For additional information about KKR & Co. L.P. (NYSE: KKR), please visit KKR's website at www.kkr.com and on Twitter [@KKR_Co](https://twitter.com/KKR_Co).

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