



## QUARTERLY COMMENTARY

## STEWARDSHIP

30 SEPTEMBER 2026

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## Stewardship through dialogue

Effective stewardship is often about fostering open dialogue and exploring ideas together. Decades of observing how exceptional companies create value, navigate change and build enduring competitive advantages give the team at Walter Scott a distinctive perspective – one we can share with company leaders, while deepening our own understanding of the businesses we own.

That approach shaped a series of recent discussions with Lonza's chair and chief executive. Lonza is a leading contract development and manufacturing organisation (CDMO), supporting the global pharmaceutical industry across the entire product lifecycle: from concept and design through pre-clinical development and clinical trial production to commercial-scale manufacturing. It is demanding work. Biologics are difficult to make consistently at scale, and regulatory approval is granted for a medicine made in a particular facility by a particular process. Once a product is established with a manufacturing partner, moving it elsewhere is rarely straightforward. Reliability, therefore, is not simply a commercial advantage; it is the foundation of the relationship.

## Engaging at a moment of transition

The appointment of new Chair Jean-Marc Huët and Chief Executive Officer Wolfgang Wienand in 2024 marked an important moment in the Swiss company's evolution. We consider that leadership transitions of this kind are a natural point at which to engage. Priorities are being set rather than defended, a board is being reshaped, and there is genuine value in understanding how new leadership intends to direct the business before that thinking hardens into strategy. It is also a moment when an outside perspective, offered constructively, is most likely to be useful.

Our conversations with Huët ranged across board composition, leadership development, customer focus and the opportunities ahead. What stood out was the openness of the exchange. Rather than dwelling on current operating performance, we turned to broader questions about what it would take for Lonza to fulfil its potential over the next decade and beyond. Drawing on his experience across a variety of global businesses, Huët spoke about the importance of talent, culture and execution in building world-class organisations. We were encouraged by the board's willingness to challenge its own assumptions, learn from leading companies in other industries and engage constructively with long-term shareholders.

## The TSMC parallel

At Walter Scott, we have long admired companies that occupy key positions within their ecosystems. Huët referenced the lithography equipment manufacturer ASML, another business we hold in high regard, though we suggested Taiwan Semiconductor (TSMC) may offer the closer parallel. Just as TSMC enables a wide range of semiconductor companies to bring their products to market, Lonza can help emerging biotech firms turn scientific innovation into commercial reality, supporting them from development through clinical trial filings to manufacturing – and in doing so establish itself as the industry's one-stop shop.

We discussed the characteristics we associate with TSMC's success: customer focus, operational excellence, ecosystem development and the ability to serve organisations of every size, from emerging innovators to global leaders. Scale matters here too. In an industry increasingly shaped by geopolitics and trade policy, we think that Lonza's global manufacturing network offers customers a flexibility and resilience that smaller contract manufacturers may struggle to match.

There are already signs of that partner-of-choice position strengthening. Customers are placing growing weight on a genuinely global footprint and on suppliers able to accompany them across the full development pathway rather than a single stage of it. Under its One Lonza strategy, the company has restructured around a single operating model designed to unify the customer experience across its sites.

It has also established a group-wide strategic account management team and, more recently, appointed its first chief commercial officer. The new role will oversee Lonza's most important relationships – typically large customers whose needs span the full breadth of its capabilities. The company has reported that its net promoter score improved significantly over the past year from an already industry-leading base, and management told us the strongest gains have come from its largest pharmaceutical customers.

## A genuine exchange

We also shared thoughts on talent and organisational development, drawing on examples of how large-scale manufacturers build leadership pipelines and recruit from adjacent sectors. Lonza has long been regarded as a scientific business when it is, essentially, a manufacturer – a distinction with real consequences for how a company recruits, promotes and measures itself. Our aim was not to prescribe solutions, but to offer perspectives gathered from observing well-run businesses across a wide range of industries.

The response has been tangible. In our most recent conversation, Wienand returned to our TSMC comparison, using the language of foundries and customer ecosystems throughout the discussion.

Our understanding is that Lonza found this framing a useful way to articulate its role, both internally and to the wider market, and it will be interesting to see whether similar themes emerge in its future communications, including at its capital markets day in October. It is a powerful reminder that the most productive engagements are genuine exchanges, with both sides prepared to listen.

As an investment team, our role extends beyond capital allocation. These interactions inform company leaders and, equally, deepen our own understanding of the businesses we invest in on behalf of our clients. Our engagement with Lonza shows how stewardship can strengthen both the partnership between shareholder and company and our conviction in a long-term investment opportunity.

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