2019/20 Condensed Half-Year Report

Your Specialist for Hazardous Reactions.

Content

This Half-Year Report 2019/20 in English includes only condensed financial information.
The comprehensive Half-Year Report 2019/20 is available in German.

Dear Shareholder,

Herewith we present to you DOTTIKON ES Group's Condensed Half-Year Report 2019/20 for the period from April 1 to September 30, 2019.

Net sales in the first business half-year were CHF 77.9 million, up by around 38 percent compared to the previous-year period. The production output – net sales plus inventory changes in semi-finished and finished goods – also increased by around 38 percent to CHF 92.2 million. This is the result of broad-based growth distributed over various products and customers and was achieved despite ongoing geopolitical and economic uncertainties. The challenges of intermittent scale-up of processes with limited experience due to accelerated market approval processes and short-term raw materials supply bottlenecks due to the enforcement of more rigorous environmental regulations for Asian chemical producers, which had a significantly adverse impact on the previous-year period's results, are still ongoing. Net income was CHF 15.4 million compared to CHF 2.0 million in the previous-year period, which represents a significant increase.

The increase in production output compared to the previous-year period was in proportion with the course of business and led to a CHF 4 million increase in inventory in semi-finished and finished goods to CHF 14.3 million. The respective material expenses rose by 33.3 percent to CHF 23.2 million, which translates into a slightly lower material expenses share of 25.1 percent (previous-year period: 26.0 percent) in relation to the production output. Personnel expenses rose by 5.0 percent to CHF 34.0 million, mainly due to higher salaries with almost the same number of staff. Together with higher capitalized own production due to

KEY FIGURES, APRIL–SEPTEMBER

CHF million (unaudited)	2018	2019	Changes
Net sales	56.6	77.9	37.7%
EBITDA	9.8	27.9	184.0%
EBITDA margin (in % of net sales)	17.4%	35.8%	
EBIT	2.4	18.7	675.5%
EBIT margin (in % of net sales)	4.3%	24.0%	
Net income	2.0	15.4	671.5%
Net income margin (in % of net sales)	3.5%	19.8%	
Cash flow from operating activities	24.8	18.1	–27.2%
Employees (FTEs, six-month average)	596	595	–0.2%

intensified investment activities in the renewal and expansion of the infrastructure and additional development and production capacities, earnings before interest, taxes, depreciation, and amortization (EBITDA) were CHF 27.9 million, up 184 percent compared to the previous-year period, with an EBITDA margin of 35.8 percent (previous-year period: 17.4 percent). The main drivers for the increase in depreciation and amortization of CHF 1.8 million compared to the previous-year period was the putting into operation of the new lab building for research and development as well as quality management and of additional chemical manufacturing capacities as well as the revaluation related to debottlenecking investments. Earnings before interest and taxes (EBIT) were CHF 18.7 million, around seven times higher than in the previous-year period. Together with the financial result and income taxes, this resulted in net income of CHF 15.4 million (previous-year period: CHF 2.0 million). Cash flow from operating activities was CHF 18.1 million in the reporting period (previous-year period: CHF 24.8 million) due to higher working assets related to the upcoming growth. Cash and cash equivalents were CHF 38.7 million at the end of the reporting period (end of business year 2018/19: CHF 43.8 million). The equity ratio was a high 80 percent.
For the ongoing full business year 2019/20, we continue to expect net sales above the previous year's figure. The infrastructure and production plant expansion and buildup to address the ongoing product-related growth will be intensified further.

Global economic growth dimmed in the period under review. In light of the growing economic risks and subdued inflation, central banks have adjusted their monetary policies, lowered the key interest rates and continued their monetary expansion. Still, the employment situation in industrialized nations has improved further, albeit at a slower pace. Economic growth, on the other hand, has weakened against the background of intensified international trade conflicts, social turmoil, and geopolitical tension. Economic risks continue to rise: The combination of rising geopolitical conflicts with high debt, low interest rates and an increased willingness to realize moderate returns with high-risk financial investments is dangerous. Renewed financial

market turmoil is becoming increasingly likely. The demonstration and expansion of power in the tripolar world order continues with an economically confrontational United States, subversive Russia, and self-confident, ambivalent China, intensifying the current regionalization trend by means of nationalism and regional conflicts. As a result, unpredictability and uncertainty intensify. Values such as trust, reliability, and long-term consistency, as well as cultural and regional proximity become increasingly important.

Key volume growth and innovation drivers in the pharma market are the demographic trend, the accelerated market approval for generics, biosimilars, and novel drugs, the governments' efforts to lower drug prices, and the rise in demand in China, above all for cancer drugs, in combination with a favorable financing environment.

The global sales share of patent-protected drugs is around 60 percent and is set to grow 6 to 7 percent annually in the coming years, clearly a stronger growth rate than the 2 to 5 percent expected for generics. In developed pharma markets, the share of expenses for patent-protected drugs stands at over 75 percent. The demographic trend and the accelerated market approval for novel drugs in combination with a favorable financing environment are key innovation drivers. They ensure long-term pharma volume growth despite governmental efforts to contain excessive drug price hikes and curb health care costs. In addition to the United States with a total of 42 percent and the EU5 with 14 percent of the global market share, China with nearly 10 percent market share and above-average growth in the past is becoming increasingly important.

So far, the United States has tried to curb the rising health care costs by stepping up economic competition, primarily by applying accelerated market approvals for novel drugs in particular. The resulting competitive pressure has resulted in significant price concessions for generics and larger indications with broader drug base treatment opportunities through list price discounts to drug wholesalers. However, these discounts often remain within the strongly consolidated and intransparent US drug distribution chain and hardly ever reach the patients. This has focused public attention on the steep increase in drug list prices and

animated politicians to step up for more transparency regulation in pricing and price reductions, but so far with very little success. Still, the ongoing activities are expected to have some disciplinary effect on pricing.

The central Chinese government has implemented various reforms, modernized hospitals and improved the health care sector in order to facilitate inexpensive access to health insurance and innovative drugs for the population. Amid these efforts, it has gradually improved the market access for international pharma companies over the last few years. As a result, the sales share of patent-protected drugs in the Chinese pharma market is expected to rise from currently 20 to 30 percent over the next five years. Forward integration is another declared objective of China's government. Clinical data for market approval collected in China and other regions of the International Council for Harmonisation of Technical Requirements for Pharmaceuticals for Human Use (ICH) will now be mutually recognized. In 2018, 48 new drugs were approved in China, 9 of which were locally developed innovations. Around 75 percent of these new market approval applications in China were subject to accelerated approval procedures.

Due to the promising pharma market for new innovative drugs, low interest rates and a lack of investment alternatives, financing in the biotech sector remains favorable, and innovation remains high. In 2018, the Food and Drug Administration approved a record number of 59 new drugs, and for the coming five years, the market expects a total of 430 new market approvals. Oncology is and remains the largest and fastest-growing indication area and is, at the same time, the indication area with the highest activity rate where generics, biosimilars, and new market approvals will be competing for market shares.

The trend among western pharma and biotech companies to repatriate drug substance and drug product manufacturing from Asia to the West continues, mainly driven by concerns regarding supply, quality, intellectual property, intensified regulatory pressure, and rising costs. In addition, demand for chemical process and analytical method development, API manufacturing, the related services and documentation, and the respective outsourcing is on

the rise. Large pharmaceutical companies struggle with lower margins amid rising costs and a lack of innovation, while smaller biotechs often lack the resources and expertise to build their own process development and production capacities in addition to product development programs. Custom Development and Manufacturing Organizations (CDMO) play a vital role in rendering these services as well as in diversifying approval risks and quantity requirement volatility. CDMO are expected to be strategic partners with a long-term perspective, rather than opportunistic service providers. Reliability, an impeccable quality track record, and profound experience are key criteria in selecting a CDMO, as a change in CDMO is time-consuming and switching costs are high.

The main risks to the generally positive outlook for the pharma market are more intense geopolitical escalation or a renewed global financial crisis and unexpectedly fast interest rate hikes. In addition, results could be adversely affected by disruptions in the supply chain due to the closure of Asian chemical producers based on the enforcement of environmental regulation, early competitive pressure due to a large number of new market approvals in comparable indication areas, stricter drug price regulation, and the occurrence of unwanted side effects related to insufficient drug safety tests on the back of accelerated market approvals. Yet regardless of these risks, the development of the pharma market creates an interesting outlook for high-quality, technologically advanced and specialized exclusive synthesis providers, especially in the field of API manufacturing. The global pharma pipeline is promising and full of innovation. Market approval processes have accelerated and competitive pressure is intensifying. Quality requirements continue to increase, resulting in longer cGMP sequences in chemical API synthesis, and foster higher manufacturing volume requirements. In combination with the increased repatriation and outsourcing of small molecule API production, the lack of process development and production expertise and capacities among biotech and pharmaceutical companies has already created initial bottlenecks in high-quality, technologically proficient chemical process development and API manufacturing capacities. This trend is set to accentuate further over the coming few years, as many CDMO have been shaken

amid changes of ownership and restructuring efforts, or, based on the experience over the last two decades, are not yet ready to make capital-intensive investments in high-quality development and production capacities.

In the current pharmaceutical environment, DOTTIKON ES is well positioned to capture the imminent growth potential. The corporate strategy – strategic partner and specialist for hazardous reactions – is reaffirmed: By using enabling technology, we develop and manufacture high-quality, demanding chemical products safely and efficiently. We collaborate closely with our customers and cultivate an integrated partnership. By applying our full development and manufacturing capabilities, we support our customers in the successful execution of their strategy. In doing so, we create more value for our customers than our competitors. We continue to focus on safety, reliability, high flexibility, and speed and are thus strengthening our position as strategic development and manufacturing partner and performance leader. The pharmaceutical market is and remains our main market with ongoing growth potential. In order to realize the expected product-related sales growth, we increase capacity utilization of existing plants with targeted debottlenecking investments. The planning for a raw material, intermediates, and API warehouse has been continued. In addition, the planning phase for the redimensioned chemical multipurpose production plant for APIs to secure long-term growth continues. At the same time, the initiated planning for additional chemical pilot plant and API drying capacities is being continued. Against this background, investments for the current full business-year 2019/20 will be high. In order to finance the capacity expansion plans, we are preparing to raise external financing in 2020. In order to ensure long-term growth, the independent Performance Chemicals project team develops new proprietary innovative products to satisfy currently unmet market needs outside the pharmaceutical market and to bring these products closer to market readiness.

Our one-site strategy allows reduced decision and communication pathways. This ensures rapid and efficient project development as well as clear and transparent data and process

documentation and customer communication. The safety culture created over the past 105 years guides innovative use of hazardous reactions, low-temperature and high-pressure chemistry, as well as continuous processing. This challenges, tightens or shortens conventional chemical synthesis routes, increases yields, selectivities and purities, and reduces waste. The versatile technology and equipment portfolio is used, maintained and continuously expanded to design, develop and optimize chemical processes and technical manufacturing procedures for the scale-up from kilograms to multi-tons in order to produce and deliver the respective market volumes.

For the ongoing full business year 2019/20, we continue to expect net sales above the previous year's figure. The infrastructure and production plant expansion and buildup to address the ongoing product-related growth will be intensified further.

Dottikon, November 21, 2019

Dr. Markus Blocher
Chairman of the Board of Directors

Group Financial Statements DOTTIKON ES Group

Consolidated Income Statements

April–September
CHF thousand and %
(unaudited, condensed)

	2018	%	2019	%
Net sales	**56'604**	**100.0**	**77'933**	**100.0**
Changes in semi-finished and finished goods	10'325		14'298	
Other operating income	2'339		2'752	
Material expenses	–17'392		–23'182	
Personnel expenses	–32'405		–34'014	
Other operating expenses	–9'642		–9'872	
Operating result before depreciation and amortization (EBITDA)	**9'829**	**17.4**	**27'915**	**35.8**
Depreciation and amortization	–7'417		–9'209	
Operating result (EBIT)	**2'412**	**4.3**	**18'706**	**24.0**
Financial income	468		253	
Financial expenses	–560		–186	
Financial result	**–92**		**67**	
Result from associated companies	**0**		**0**	
Net income before taxes	**2'320**	**4.1**	**18'773**	**24.1**
Income taxes	–319		–3'335	
Net income	**2'001**	**3.5**	**15'438**	**19.8**
Basic/diluted earnings per share in CHF	**1.60**		**12.33**	
Weighted average number of shares	**1'250'884**		**1'252'148**	

Consolidated Balance Sheets

CHF thousand and %
(unaudited, condensed)

	31.03.2019	%	30.09.2019	%
Cash and cash equivalents	43'833		38'724	
Current financial assets	0		0	
Trade receivables	41'202		41'749	
Other receivables	1'541		2'229	
Inventories	67'088		76'601	
Prepaid expenses and accrued income	1'198		1'892	
Current assets	**154'862**	**33.4**	**161'195**	**33.5**
Property, plant and equipment	263'963		275'649	
Intangible assets	729		678	
Investments in associated companies	1'253		1'253	
Assets from employer contribution reserve	42'284		42'284	
Non-current assets	**308'229**	**66.6**	**319'864**	**66.5**
Assets	**463'091**	**100.0**	**481'059**	**100.0**
Trade payables	12'751		12'531	
Income tax liabilities	1'276		4'474	
Other current liabilities	17'588		19'842	
Current provisions	50		49	
Accrued expenses and deferred income	26'545		23'057	
Current liabilities	**58'210**	**12.6**	**59'953**	**12.5**
Non-current provisions	5'420		5'420	
Deferred tax liabilities	31'121		31'258	
Non-current liabilities	**36'541**	**7.9**	**36'678**	**7.6**
Liabilities	**94'751**	**20.5**	**96'631**	**20.1**
Share capital	127		127	
Share premium	61'826		62'158	
Retained earnings	310'744		326'224	
Own shares	–4'357		–4'081	
Shareholders' equity	**368'340**	**79.5**	**384'428**	**79.9**
Shareholders' equity and liabilities	**463'091**	**100.0**	**481'059**	**100.0**

Consolidated Cash Flow Statements

April–September
CHF thousand
(unaudited, condensed)

	2018	2019
Net income	2'001	15'438
Income taxes	319	3'335
Financial result	92	–67
Depreciation of property, plant and equipment	7'338	9'093
Amortization of intangible assets	79	116
Result from associated companies	0	0
Other non-cash income and expenses	–24	286
Interest received	21	3
Interest paid	–8	–7
Income taxes paid	–8	–10
Changes in		
Trade receivables	29'938	–538
Other receivables as well as prepaid expenses and accrued income	–2'626	–1'263
Inventories	–11'220	–9'513
Trade payables	959	–1'000
Other current liabilities as well as accrued expenses and deferred income	–2'024	2'202
Provisions	–13	–1
Cash flow from operating activities	**24'824**	**18'074**
Outflows of		
Current financial assets	0	0
Property, plant and equipment	–22'154	–23'028
Intangible assets	–238	–88
Inflows of		
Current financial assets	0	0
Property, plant and equipment	0	19
Intangible assets	0	0
Cash flow from investing activities	**–22'392**	**–23'097**
Dividends paid	0	0
Purchase of own shares	0	0
Disposal of own shares	0	0
Cash flow from financing activities	**0**	**0**
Currency translation effect on cash and cash equivalents	–71	–86
Net change in cash and cash equivalents	**2'361**	**–5'109**
Cash and cash equivalents at the beginning of the reporting period	54'581	43'833
Cash and cash equivalents at the end of the reporting period	**56'942**	**38'724**

Consolidated Statements of Changes in Equity

CHF thousand
(unaudited, condensed)

	Share capital	Share premium	Changes in fair value of foreign exchange forwards	Other retained earnings	Own shares	Shareholders' equity
Balance 01.04.2018	**127**	**61'358**	**37**	**294'470**	**–4'517**	**351'475**
Net income				**2'001**		**2'001**
Changes of foreign exchange forwards						0
Income taxes on items recognized directly in equity						0
Dividends paid						0
Changes in own shares		468			160	628
Balance 30.09.2018	**127**	**61'826**	**37**	**296'471**	**–4'357**	**354'104**
Balance 01.04.2019	**127**	**61'826**	**17**	**310'727**	**–4'357**	**368'340**
Net income				**15'438**		**15'438**
Changes of foreign exchange forwards			52			52
Income taxes on items recognized directly in equity			–10			–10
Dividends paid						0
Changes in own shares		332			276	608
Balance 30.09.2019	**127**	**62'158**	**59**	**326'165**	**–4'081**	**384'428**

Notes to the Group Financial Statements of DOTTIKON ES Group (condensed)

1 SEGMENT REPORTING

DOTTIKON ES Group manufactures high-quality performance chemicals, intermediates and exclusive active pharmaceutical ingredients (APIs) for the world's leading chemical and pharmaceutical industry. DOTTIKON ES Group is specialized in hazardous reactions and positions itself as strategic development and manufacturing partner and performance leader. DOTTIKON ES Group uses, maintains and continuously expands its versatile technology and equipment portfolio to design, develop and optimize chemical processes and technical manufacturing procedures for the scale-up from kilograms to multi-tons in order to produce and deliver the respective market volumes.

According to Swiss GAAP FER 31 "Complementary Recommendation for Listed Public Companies", the reportable operating segments are determined using the segment reporting to the top management level for corporate management. DOTTIKON ES Group's top management level is the Board of Directors. In addition to its statutory tasks, the Board of Directors is responsible for the strategic focus and management of the Group. Strategic and important operational decisions of DOTTIKON ES Group are taken by the Board of Directors.

DOTTIKON ES Group builds on one single production site with the strategy of performance leadership as specialist for hazardous reactions. DOTTIKON ES Group mainly executes strongly heterogeneous projects with a focus on the exclusive synthesis of fine chemicals. Therefore, a differentiation in several operating segments is not informative.

The financial reporting to the Board of Directors is prepared in a single segment. DOTTIKON ES Group allocates resources and assesses their performance on entity level.

Therefore, the required information according to Swiss GAAP FER 31.8 "Segment Reporting" is shown in the consolidated interim financial statements.

2 SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

The consolidated interim financial statements were approved for issue by the Board of Directors on November 21, 2019.

No significant events have occurred between September 30, 2019, and November 21, 2019, that would require an adjustment of the Group's carrying amounts of assets and liabilities or that would need to be disclosed under this heading.

Investor Relations

Issue Annual Report 2019/20
May 29, 2020

Annual General Meeting for the Business Year 2019/20
July 3, 2020

Issue Half-Year Report 2020/21
November 27, 2020

DOTTIKON ES HOLDING AG is listed on the SIX Swiss Exchange.
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Security number: 2073900
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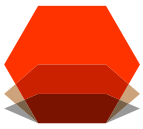
DOTTIKON ES manufactures high-quality performance chemicals, intermediates and exclusive active pharmaceutical ingredients (APIs) for the world's leading chemical and pharmaceutical industry. The company with its production site in Dottikon (Aargau, Switzerland) is specialized in hazardous reactions and positions itself as strategic development and manufacturing partner and performance leader. Its safety culture created over the past 105 years guides innovative use of hazardous reactions, low-temperature and high-pressure chemistry, as well as continuous processing. This challenges, tightens or shortens conventional chemical synthesis routes, increases yields, selectivities and purities, and reduces waste. The versatile technology and equipment portfolio is used, maintained and continuously expanded to design, develop and optimize chemical processes and technical manufacturing procedures for the scale-up from kilograms to multi-tons in order to produce and deliver the respective market volumes.

DOTTIKON ES' one-site strategy allows reduced decision and communication pathways. This ensures rapid and efficient project development as well as clear and transparent data and process documentation and customer communication.



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