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DOTTIKON ES with Lower Sales and Loss

Dottikon, Switzerland, November 26, 2010 – DOTTIKON ES Group, specialized in the exclusive synthesis of fine chemicals using hazardous chemical reactions, closed its first business half-year 2010/11 on September 30. As already announced in DOTTIKON ES' brief media release as of November 4, 2010, net sales declined by 20% year-on-year to CHF 36.0 million. This was due to several discontinued and delayed projects in the late development phase as well as currency pressure. Material, personnel, and other costs were reduced by 13% compared with the same period of the previous year, to counter the lower net sales. The EBITDA margin nevertheless declined from around 27% to 11%. As a direct consequence of the considerably lower net sales and, due to the expansion in recent years, higher depreciations, there resulted a net loss of CHF 2.3 million.

Key drivers of the increase in demand for basic and industrial chemicals in the first half of the year were the rapid recovery and return to strong growth on Asian markets, coupled with worldwide government intervention to support economic activity. Since then, the pace of economic activity has slowed considerably – at least in the West and the USA in particular. In spite or rather because of monetary and fiscal policy with extremely low interest rates and a record liquidity supply, uncertainties about the future development and the threats to the global economy remain at a high level. The rise in government debt leads several Western countries to regulate drug prices even more tightly in order to cut the health care costs. This is hitting pharmaceutical majors in the midst of their own structural crisis. Research and development productivity has been falling for years despite the steady rise in expenditure. This is also due to the ever more stringent requirements of the regulatory authorities. Drugs that exhibit only marginally improved efficacy find it difficult to obtain approval unless concessions are made on price. As well as ways to offset sales of expiring products, the focus among pharmaceutical players is on cutting costs and boosting productivity. Existing activities are being examined in a critical portfolio review and in some cases halted, the capacities freed up are being reduced or disposed of, and the costs of continuing projects are being lowered. This means reducing current spending on development and production, as well as reducing the capital that is tied up; in light of reduced spending, development costs are being shifted to later clinical stages. The resources freed up are used to access external projects in already advanced clinical phases. Reduced chemical process experience due to project vendors' short-term interests, additional interfaces and friction losses will increasingly lead to scale-up-related quality problems, delay the approval process, and need to be solved under time pressure.

The first half of DOTTIKON ES' business year 2010/11 was dominated by the structural portfolio adjustment at its pharmaceutical clients as well as their efforts to cut costs by deferring and shifting development costs to later clinical phases.

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More than five key projects about to be applied for approval were unexpectedly halted and terminated by clients at the late clinical stage. Some were stopped while production was ongoing at the plants. These projects were intended to replace such affected by loss of exclusivity and therefore expiring products. Some projects for which customers had conducted new drug approval processes were subject of repeated delays and their approval is still pending. Projects in the early development phase were either postponed or reduced in volume by customers seeking to reduce costs.
DOTTIKON ES' net sales consequently fell by around 20 percent year-on-year in the first half of the business year to CHF 36.0 million. The reduction in operating costs initiated in the last business year was realized. Material and personnel expenses in particular declined as a result. The latter was also due to a year-on-year reduction in headcount of around 7 percent and the continuation and extension of the short hours introduced in March 2010. Material, personnel, and other costs fell by 13 percent year-on-year overall. Peripheral areas, particularly research and development, but also quality management, were deliberately spared from cutbacks. Indeed research and development was expanded to include a routefinding laboratory. This was with a view to addressing increasing future requirements for improved synthesis route selection with respect to safety, quality, and scalability; due to delayed route selection and process development by customers. On the investment side, DOTTIKON ES continued to push forward with the expansion of API drying capacity for large-volume production in the reporting period and will commission this according to plan in the second half of the business year. Ongoing investment activity, and with it the capitalization of recently commissioned development and production capacity, correspondingly increased depreciation and amortization by 8 percent. Overall, this resulted in a net loss of CHF 2.3 million. On the other hand, cash flow from operating activities rose by 34 percent year-on-year to CHF 24.1 million. As a result of this, and in connection with the 42 percent year-on-year decrease in investments in intangible assets as well as property, plant and equipment of CHF 8.3 million, free cash flow increased from CHF 3.5 million to CHF 15.8 million, while total cash and cash equivalents as well as fixed deposits rose from CHF 33.9 million at the start of the reporting period to CHF 57.0 million.
New projects are being acquired in order to offset the loss of projects in the late development phase. For this reason, the required resources from the corresponding segments of the value chain are being maintained by DOTTIKON ES.

Implementing and building on the corporate strategy – performance leadership as specialist for hazardous reactions – will continue. DOTTIKON ES continues to focus on high flexibility, speed, safety, and reliability.
In the current business year 2010/11, DOTTIKON ES will continue and terminate its investment in high-quality, technologically advanced capacity expansion. This will be followed by a return to investment activity in line with the level of depreciation and amortization. For the full business year 2010/11, DOTTIKON ES expects considerably lower net sales and a net loss, caused by several discontinued and delayed projects in the late development phase and ongoing currency pressure.

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Key Figures DOTTIKON ES Group

CHF million	FY 2009/10	HY 2009/10*	HY 2010/11
Net sales	**113.1**	**45.3**	**36.0**
EBITDA	**26.1**	**12.1**	**3.9**
EBITDA margin (in % of net sales)	*23.1%*	*26.8%*	*10.9%*
EBIT	**12.5**	**5.4**	**–3.3**
EBIT margin (in % of net sales)	*11.1%*	*11.9%*	*–9.3%*
Net income (net loss)	**12.6**	**4.8**	**–2.3**
Net income (net loss) margin (in % of net sales)	*11.2%*	*10.6%*	*–6.4%*
Cash flow from operating activities	**35.2**	**18.0**	**24.1**
Capital expenditure	–24.2	–14.5	–8.3
Free cash flow	**11.0**	**3.5**	**15.8**

*Restated; change in accounting policy regarding employee's defined benefit plans in accordance with IAS 19
FY: Business year from April 1, 2009, to March 31, 2010
HY: Business half-year from April 1 to September 30

The Annual Report 2010/11, covering the period from April 1, 2010, to March 31, 2011, will be presented on May 31, 2011.

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DOTTIKON ES, with its production site in Dottikon (Aargau, Switzerland), is specialized in hazardous chemical reactions and focuses on the exclusive synthesis of fine chemicals for the pharmaceutical and chemical industry worldwide. The product range of DOTTIKON ES includes active pharmaceutical ingredients (APIs) and pharmaceutical intermediates as well as in-house-developed, high-value industrial chemicals.

DOTTIKON ES HOLDING AG is listed at the SIX Swiss Exchange.
Symbol: DESN
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