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DOTTIKON ES with Lower Sales and Loss

Dottikon, Switzerland, May 31, 2011 – SIX-listed DOTTIKON ES HOLDING AG closed its business year 2010/11 on March 31, 2011.

- Net sales fell by 29.2% from CHF 113.1 million to CHF 80.1 million compared with the previous year
  - Most of the reduction was due to the pharmaceutical products area, where net sales fell around 37% year-on-year as a result of several discontinued and delayed customer projects in the late development phase, together with persistent price and currency pressure
  - By contrast, net sales of industrial chemicals almost doubled year-on-year thanks to improved economics
- Operating costs were reduced by a further 9% on a year-on-year basis. In particular, personnel expenses were reduced by 5% and material expenses by 29%, while depreciation and amortization as a result of the strong investment of recent years increased by 8%. Research and development expenses for the future-oriented further development of core technologies increased from 7 to 10% of net sales
- This finally led to a net loss of CHF 7.1 million compared to net income of CHF 12.6 million in the previous year
- As a result of efficient cash management and disciplined cost control, cash and cash equivalents as well as fixed deposits rose by 41.2% to CHF 58.5 million despite the investment activity and the net loss reported
- The equity ratio increased from an already high 84.7% to 86.5%, despite the decrease in equity from CHF 324.4 million to CHF 317.3 million as a result of the net loss
- The Board of Directors of DOTTIKON ES HOLDING AG will propose to this year's Annual General Meeting on July 1, 2011, that, in view of the still uncertain market environment and the need for working capital amid a return to growing demand, no dividend be paid, as in the previous year, and that the entire retained earnings be instead carried forward to new account
- Furthermore, the Board of Directors will propose that, next to the existing members, Dr. Alfred Scheidegger, founder and CEO of Nextech Invest AG, be additionally elected to the Board of Directors of DOTTIKON ES HOLDING AG, in order to prepare for an orderly transition next year when two members of the Board of Directors will no longer put themselves forward for reelection for reasons of age

Downside risks for the global economy

The global economic expansion recovered more rapidly in the reporting period than originally expected. The export economies of industrialized nations were invigorated by the strong resurgence of demand from the emerging markets, particularly from China. However, the downside risks for economic development going forward are significant, and have even increased in the most recent past. In the majority of industrialized nations, enforcement and implementation of unpopular measures to reduce oversized and unsustainable government deficits have only been approached half-heartedly, or have been postponed again. Financial markets assessed the risk of insolvency of countries higher than that of private companies for the first time in history. A rescheduling of national debt of highly leveraged European countries becomes increasingly likely. The International Monetary Fund

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has explicitly taken the USA to task for its failure to come up with a credible strategy to improve its finances, and first rating agencies have lowered the credit rating of the USA as debtor accordingly. The unexpected rising of protests in the Middle East and in North Africa (MENA) shows how the influence of the USA as the hegemonic power has declined in recent years in a region important in terms of its fossil resources. Given the internal financial disequilibrium and political power struggles, the EU will not be able to step into this gap in the near future. The oil imported by China and India from the MENA region are making their economies particularly vulnerable. The energy shortfall predicted for the future will have a price-driving influence on fossil fuels. The increasing regional fragmentation due to power vacuums and conflicts of interests regarding resources will become a major challenge in the years ahead. In the context of internationalization and globalization during the last two decades, globally set up value chains of entire industry segments and food supply have become sensitive to interruptions. In a number of cases, single value chain segments have been concentrated for cost efficiency reasons to certain global regions with a very limited number of large suppliers remaining. In case the apparent social tensions in China were to increase and to spill over into riots, as in the MENA region, this would immediately have global impacts on almost all sectors of the economy.

Tempered pharma growth, margin pressure, and process-related approval risks
Patent expiries and government measures to cut drug prices and raise the share of generics are increasing pressure on price and therefore also margin in the pharmaceutical market. As a result, the majority of the large pharmaceutical companies experienced a decline in sales in 2010 or in the beginning of the current year. Next to compensating expiring products and lower sales, the current focus of pharmaceutical companies is on serious efforts to lower costs and boost productivity. In order to counteract the decline of profit margins, the traditional pharmaceutical model is being transformed towards the recently more successful biotech model in order to reduce costs. In the last business year, pharmaceutical companies subjected their existing activities to a critical portfolio review, and numerous projects in the late clinical phase were discontinued as a result. The capacities freed up have been or are being reduced or disposed of, while the costs of those projects still being pursued are being lowered. Ongoing expenditure on research, development, and production is being cut by shifting the costs to later clinical stages and reducing the amount of capital tied up. The resources thus freed up are being used to access external, promising projects in already advanced clinical phases. Due to the short-term interests of project sellers, the synthesis route selection and process development are frequently neglected, while experience is being lost at the additional interfaces created. Attempts to shorten the time to market – combined with pipeline consolidation as a result of licensing and the acquisition of projects with underdeveloped chemical processes – are increasing complexity and financial risks in process development and exclusive synthesis of active pharmaceutical ingredients (APIs) for pharmaceutical companies. This will increasingly lead to scale-up-related quality problems, and delay approval processes. First negative approval decisions as a result from deficiencies in the chemical manufacturing process have recently been issued. The number of process- and quality-induced problems at the approval and launch stage – which have to be resolved under time pressure – will further increase. Proven experience, rapid adaptability, innovative process technology, and reliability when it comes to quality and to supply are the key success factors in such an environment.

Review – sharp decline in number of projects and volumes, pricing pressure
The business year 2010/11 of DOTTIKON ES was strongly influenced by the rigorous restructuring of development portfolios by the pharmaceutical customers, and by their attempts to cut costs. Although, this market trend was anticipated by DOTTIKON ES, its severity was significantly underestimated. Around ten key projects about to be applied for approval were unexpectedly stopped and discontinued by customers at the late clinical stage. Some were halted while production was under way. These important projects for DOTTIKON ES were intended to replace the ones 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. Projects in the early development phase were either postponed or reduced in volume by pharmaceutical customers. The willingness of the pharmaceutical industry remains low to invest in chemical process development for projects in clinical phase 2 in order to ensure safe, reliable, and cost-efficient production at multi-ton volumes. Many pharmaceutical companies are trying to bridge their volume requirements even at this advanced clinical phase through an additional tactical supply of small amounts from low-cost countries. Among Western custom manufacturers, the combination of cutback of large volume products and reduced number of projects with low volume requirements has increased willingness to make unreasonable price concessions. Additional price pressure has also come from the unfavorable exchange rates of the US dollar and the Euro.
DOTTIKON ES' net sales consequently fell by around 30 percent year-on-year in the last business year to CHF 80.1 million. The reducing of operating costs was extended. Material and personnel resources and expenses were reduced further, the latter also with the continuation of the short hours first introduced in March 2010. Material, personnel, and other costs were lowered by around 12 percent year-on-year overall. DOTTIKON ES deliberately spared the peripheral areas from cutbacks, particularly research and development. Expenses for the future-oriented further development of core technologies rose from 7 to 10 percent of net sales. This is in view to address increasing future requirements for improved synthesis route selection and process chemistry with respect to safety, quality, and scalability due to delayed process development and evaluation by customers. On the investment side, DOTTIKON ES completed the expansion of API drying capacity for large-volume production and commissioned in the reporting period. Investment activities following completion of the expansion phase have now returned to the level of depreciation and amortization. As a consequence of the investments made in recent years, depreciation and amortization rose by 8 percent year-on-year. In addition, against the backdrop of a volatile market environment with the corresponding price and volume uncertainties, the inventory valuations of large positions were adjusted and lowered the result. This finally led to a net loss of CHF 7.1 million.
Reflecting the economic environment, again high priority was attributed to cash management by DOTTIKON ES, and therefore cash and cash equivalents together with fixed deposits rose by around 41 percent to CHF 58.5 million, despite the investment activity and the net loss reported. DOTTIKON ES has a solid equity ratio of 86.5 percent and no interest-bearing liabilities.

Key Figures DOTTIKON ES Group

CHF million	FY 2009/10	FY 2010/11	Changes
Net sales	**113.1**	**80.1**	–29.2%
Changes in semi-finished and finished goods	–9.2	–10.3	
Other operating income	4.9	8.0	
Material expenses	–24.8	–17.5	
Personnel expenses	–43.8	–41.5	
Other operating expenses	–14.1	–13.9	
EBITDA	**26.1**	**4.9**	–81.3%
EBITDA margin (in % of net sales)	*23.1%*	*6.1%*	
Depreciation and amortization	–13.6	–14.7	
EBIT	**12.5**	**–9.8**	–178.2%
EBIT margin (in % of net sales)	*11.1%*	*–12.2%*	
Financial result	0.0	0.1	
Income taxes	0.1	2.6	
Net income (net loss)	**12.6**	**–7.1**	–155.9%
Net income (net loss) margin (in % of net sales)	*11.2%*	*–8.8%*	
Basic earnings (loss) per share (in CHF)	**10.21**	**–5.70**	–155.8%
Proposed dividend per share (in CHF)	–	–	
Cash flow from operating activities	**35.2**	**30.4**	–13.8%
Capital expenditure	–24.2	–13.3	
Free cash flow	**11.0**	**17.1**	+54.9%

FY 2009/10: business year from April 1, 2009, to March 31, 2010
FY 2010/11: business year from April 1, 2010, to March 31, 2011

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Outlook – a year of transition
In the business year 2011/12, DOTTIKON ES is continuing the strategy of performance leadership as specialist for hazardous reactions, building on one single production site and therefore flexibility, speed, and reliability. This is part of a differentiated performance leadership strategy where the number of internal interfaces is reduced in order to shorten decision and communication pathways, resulting in fast and efficient project development and comprehensive and transparent communication with customers. By means of this strategy, DOTTIKON ES adds value for customers over the entire product life cycle by using hazardous reactions. DOTTIKON ES utilizes the environment of the safety culture created over the last 100 years to innovatively use hazardous reactions to question, tighten or shorten conventional chemical synthesis routes.

In the current business year 2011/12, DOTTIKON ES is anticipating a year of transition – against a backdrop of delayed or discontinued projects in the late development phase, persistent currency pressure, and the difficult market environment – with an increase in early-phase new projects. However, DOTTIKON ES expects net sales to be in line with the previous year, resulting in a net loss.

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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