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DOTTIKON ES again with Lower Sales and Loss

Dottikon, Switzerland, November 29, 2011 – DOTTIKON ES Group, specialized in the exclusive synthesis of fine chemicals using hazardous chemical reactions, closed its first business half-year 2011/12 on September 30. Net sales were lowered by 14% year-on-year to CHF 30.8 million and net loss by 17% to CHF 2.7 million, and reached their prospective bottom, so that short hours in all plant sections could be ended by end of September 2011. As a consequence of lower net sales, personnel and other operating expenses were reduced by 7% again compared to the same period of last year. Related to increased incoming orders since the mid of the reporting period, the inventory of semi-finished and finished goods was built up due to preparatory efforts. As a result, the material expenses increased by 15%. Active cash management and cost efficiencies provided an almost unchanged position in cash and cash equivalents and fixed deposits of CHF 58.3 million. DOTTIKON ES has furthermore a solid equity ratio of 86.5%.

Globally, the general uncertainty continues and shapes the economic landscape. Both, the regional and the global geopolitical balances of power are shifting. At best, a weak global economic growth can be expected for the medium-term. The continuous uncertainty of public and financial institutions' latent insolvency and possible supply interruptions cause a value shift, away from immaterial services toward material industries, in the original sense: production of material goods. Terms such as safety, security, trust, reliability, sustainability, and intrinsic values suddenly regain their essential meanings. From an industrial viewpoint: on-time delivery of goods in agreed quantity and quality to the price agreed on one side, and the acceptance of goods and the timely payment of the agreed sales price on the other side.
The expiration of patents as well as lower drug prices, regulated by governments due to the debt crisis in order to reduce health care costs, further increase price and margin pressure on pharmaceutical companies. Their portfolio reviews of drugs in clinical development are mainly completed and result, for the time being, first in diluted product pipelines, whereas most of the freed-up capacities were reduced. The development costs of ongoing projects are still shifted to later clinical stages and the gained capital redirected to promising projects in late clinical stages. As a consequence of this refocusing, pharma is intentionally neglecting synthesis route selection and process development at the expense of the later stages.
The market demand, which almost ceased completely for more than one year, increased again in the last months, in particular for reliable process development for new or process-wise underdeveloped projects. The future will show how sustainable this demand recovery will be. Two facts, however, set mid-term an optimistic tone: First, a several decades long trend of declining new drug approvals by the FDA stopped. The amount of approvals by the FDA was already higher in the first half of 2011 than during the entire 2010. Second, with the first successful approvals of personalized drugs a new potential is establishing itself in the market. The approach of personalized medicine requires an increased number of different new drugs and thus significantly lower required quantities per active pharmaceutical ingredient (API). The synthesis of novel chemical core structures of these APIs requires mastery of state-of-the-art and demanding chemistry and technology. Their lower annual API quantities economically favor the production in multi-purpose plants.

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The past first half of the business year 2011/12 of DOTTIKON ES was furthermore affected by the implications of the structural portfolio clear-up as well as by cost-cutting efforts by delaying and shifting the development expenses into later clinical phases by its pharmaceutical customers. As a result, net sales declined again by about 14 percent to CHF 30.8 million compared to last year's period. Personnel expenses were year-on-year once more reduced by 7 percent as well as other operating expenses by 8 percent. Investment activities returned after completion of the expansion phase, as announced, back to a significantly lower level, so that depreciation and amortization were even slightly declining compared to last year. Since the mid of the reporting period, the number of requests for reliable process development under adherence to highest eligibility criterions with respect to safety, quality, scalability, as well as timing for process-related technically underdeveloped projects significantly increased, even though the release for project realization has not been approved by all customers, mostly because of budget constraints. Moreover, shortages in supply due to excessive inventory downsizing by the customers led to orders of established products on short notice. The increase of incoming orders permitted DOTTIKON ES to end short hours in all plant sections by end of September 2011 and resulted during the reporting period in an increase of the material expenses by about 15 percent and an inventory build-up in semi-finished and finished goods of CHF 7.7 million. The combination of a weak course of business in 2010/11 with the related lower cash flow from trade receivables of the previous period resulted in a lower operating cash flow of CHF 1.9 million compared to the same period of the previous year. During the reporting period and according to DOTTIKON ES, the disadvantage of the strong Swiss franc had less influence on the price and thus on the margin than could have been anticipated. In considering the general unstable environment, the above-mentioned need for more security, safety, stability, and trust has at this point a supportive effect. Furthermore, some of the Western competitors lost power of impact and competence due to excessive cuts while reducing costs. If this trend continues, it may turn out to be beneficial that DOTTIKON ES rationally decided not to cut peripheral areas, particularly research and development and quality management, as well as expenditures in future-oriented further development of the core technologies, while carefully managing cash and equity at the same time. At the end of the reporting period, DOTTIKON ES continues to possess a solid position in cash and cash equivalents and fixed deposits of CHF 58.3 million and an unchanged strong equity ratio of 86.5 percent.

The corporate strategy – performance leadership as specialist for hazardous reactions – will continue. DOTTIKON ES keeps focusing on high flexibility, speed, safety, and reliability. The one-site strategy allows short decision and communication pathways. This ensures quick and efficient project development as well as clear and transparent communication with the customers. By means of this strategy, DOTTIKON ES adds value to its 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, low-temperature and high-pressure chemistry, as well as continuous processing, to question, tighten or shorten conventional chemical synthesis routes.

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DOTTIKON ES anticipates, due to the long lead times of new projects, that the current business year 2011/12 will still be a transitional year with a further increase in the number of new projects and net sales in line with the previous year, resulting again in a net loss.

Key Figures DOTTIKON ES Group

CHF million	**FY 2010/11**	**HY 2010/11**	**HY 2011/12**
Net sales	**80.1**	**36.0**	**30.8**
EBITDA	**4.9**	**3.9**	**2.5**
EBITDA margin (in % of net sales)	*6.1%*	*10.9%*	*8.3%*
EBIT	**–9.8**	**–3.3**	**–4.6**
EBIT margin (in % of net sales)	*–12.2%*	*–9.3%*	*–14.9%*
Net income (net loss)	**–7.1**	**–2.3**	**–2.7**
Net income (net loss) margin (in % of net sales)	*–8.8%*	*–6.4%*	*–8.8%*
Cash flow from operating activities	**30.4**	**24.1**	**1.9**
Capital expenditure	–13.3	–8.3	–1.9
Free cash flow	**17.1**	**15.8**	**0.0**

FY: Business year from April 1, 2010, to March 31, 2011
HY: Business half-year from April 1 to September 30

The Annual Report 2011/12, covering the period from April 1, 2011, to March 31, 2012, will be presented on May 29, 2012.

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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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