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DOTTIKON ES with Increased Net Sales and Loss

Dottikon, Switzerland, November 30, 2012 – DOTTIKON ES Group, positioned as strategic development and manufacturing partner and specialized in the exclusive synthesis of fine chemicals using hazardous reactions, closed its first business half-year 2012/13 on September 30. As already announced in DOTTIKON ES' brief media release as of November 16, 2012, net sales increased by 22% to CHF 37.7 million year-on-year, whereas production output – net sales plus inventory changes in semi-finished and finished goods – decreased by 9%, due to unexpected delays in projects and products in the growth or mature stage. Material expenses were reduced by 26%. Personnel expenses and other operating expenses increased by 3% and 19% respectively as a result of front-loading effects. The former due to an expansion of the workforce for the broadening of the project pipeline and product range, the latter due to the deployment of lower capacity utilization for more comprehensive revision of existing plants. The result in the reporting period was an increase of CHF 1.3 million in net loss to CHF 4.0 million.

Economic growth is weakening worldwide. The public debt burden, measured in economic performance, has continued to rise in Europe. The accumulated debt of the Euro countries has now reached a new high at 90 percent of the gross domestic product. At the same time, fiscal quotas are increasing. This is not saving in the sense of lower expenditure. Economic growth in the USA remains powerless. The uncertainty is leading companies to suspend their investment plans. Although the emerging countries are continuing to shore up global growth, their growth rates are proving to be lower than expected. Central banks are increasing the amount of money and purchasing their own home regions' government bonds on a grand scale, i.e., debt monetization. Specific security policy challenges have resulted from the financial crisis. Drastic economy measures, mass unemployment, and lack of prospects can destabilize societies and make countries ungovernable or radicalize them. The consequences could range from regional crises to tensions between neighboring states. Safety, security, trust, reliability, sustainability, and intrinsic values are becoming increasingly important due to the general increase in uncertainty and the associated possibility of the disruption of supply.
Patent expiries, forced use of generics, restrictions of cost reimbursements by government health insurances, and the lowering of drug prices by the state further increase price and margin pressures on pharmaceutical companies. In the next few years, a contraction in the pharmaceutical market is anticipated in Europe as well as in Japan, while the proportion of generics increases. Predicted growth in the USA shrank to a meager one to two percent. Further strong growth of considerably more than 10 percent is expected for the so-called pharmerging markets, such as China, India, Brazil or Mexico, which are dominated in particular by low-margin generics, however, and where market shares are hard fought due to increasing competition. All too often, improper compromises in quality are made in return for lower costs, as demonstrated by the recent high number of warning letters issued by the FDA to established pharmaceutical companies.

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Some pharmaceutical companies are responding to the pressure on costs and innovation with portfolio adjustments and the outsourcing of research and development activity to smaller pharmaceutical and biotech companies. Others in turn are continuing with high research and development expenditure with the replacement of time-honored standard treatments, or are venturing forward into underdeveloped new therapeutic areas, where price pressure is clearly less marked but where there are higher approval risks due to the innovative character. Since 2010, the number of approvals for new small molecule drugs (new molecular entities) by the FDA in the USA has increased considerably again, despite decreasing success rates in clinical phases II and III.

In the reporting period, the demand for reliable and stable development of chemical processes has continued to grow. New projects which, for the present are small in volume but extremely development-intensive, were successfully acquired by DOTTIKON ES in the reporting period. These are now being developed for customers to production scale in stages. The demand for large-volume capacity for multi-ton API production under the highest standards of safety and pharmaceutical quality, was still slow moving in the reporting period. That DOTTIKON ES can satisfy the high quality requirements in all respects, was proven by another successfully completed FDA audit last September, with no observations. In the reporting period, another increase was apparent in projects with high-quality, sophisticated exclusive synthesis and production under time pressure outside of the pharmaceutical market for DOTTIKON ES. The positioning as a technologically well-versed, strategic development and manufacturing partner, integrated at one site, gives promising feedback for the future, in particular in these often extremely innovative niche markets.

In the past first business half-year, net sales increased by 22 percent to CHF 37.7 million compared to last year's period and the relative and the absolute proportions of net sales from new non-pharmaceutical projects were fortunately extended disproportionately. On the other hand, production output – net sales plus inventory changes in semi-finished and finished goods – decreased, due to unexpected delays in projects and products in the growth or mature stage. Material expenses decreased by CHF 2.9 million in the reporting period, as a result of inventory decrease in semi-finished and finished goods with an improved product mix. By contrast, personnel expenses increased by CHF 0.5 million – due to the discontinuation of short hours compensations, a 5 percent expansion of the workforce for the broadening of the project pipeline and product range, but lower net defined benefit expenses and therefore lower than the actual employer contributions. Other operating expenses also increased by CHF 1.2 million, due to the deployment of lower capacity utilization for more comprehensive revision of existing plants in the first business half-year, compared to last year's period. Together with front-loading effects on costs, as a result of the broadening of the project pipeline and product range with sophisticated new projects, there was a net loss of CHF 4.0 million in the reporting period. At the end of the reporting period, DOTTIKON ES continues to have a solid balance of cash and cash equivalents and fixed deposits of CHF 48.2 million as well as a continuing strong equity ratio of 87.2 percent, and is therefore well equipped for any sustained unpredictability in the present cooling down environment.

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The corporate strategy – performance leadership as specialist for hazardous reactions – continues. DOTTIKON ES keeps focusing on safety, reliability, and high flexibility, as well as speed, and is positioning itself as strategic development and manufacturing partner. 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.
Despite evidence of slightly improved business dynamics in the current second business half-year, DOTTIKON ES is expecting – in the environment of the slowing global economy – a further increase in net sales but a delayed return back to profitability for the whole business year 2012/13.

Key Figures DOTTIKON ES Group

CHF million	FY 2011/12	HY 2011/12	HY 2012/13
Net sales	**81.0**	**30.8**	**37.7**
EBITDA	**11.7**	**2.5**	**0.2**
EBITDA margin (in % of net sales)	*14.4%*	*8.3%*	*0.5%*
EBIT	**–2.6**	**–4.6**	**–6.9**
EBIT margin (in % of net sales)	*–3.2%*	*–14.9%*	*–18.4%*
Net income (net loss)	**–0.8**	**–2.7**	**–4.0**
Net income (net loss) margin (in % of net sales)	*–1.0%*	*–8.8%*	*–10.6%*
Cash flow from operating activities	**3.8**	**1.9**	**–1.7**
Capital expenditure	–4.6	–1.9	–2.8
Free cash flow	**–0.8**	**0.0**	**–4.5**

FY: Business year from April 1, 2011, to March 31, 2012
HY: Business half-year from April 1 to September 30

The Annual Report 2012/13, covering the period from April 1, 2012, to March 31, 2013, will be presented on May 29, 2013.

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DOTTIKON ES, with its production site in Dottikon (Aargau, Switzerland), is specialized in hazardous chemical reactions and is positioning itself as strategic development and manufacturing partner. Its safety culture created over the last 100 years is utilized 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, improve yields, selectivity, and purity, as well as to reduce waste.
DOTTIKON ES employs its versatile technology and equipment portfolio to design, develop, and continuously improve chemical processes, scale up from kilograms to multi-tons, as well as to manufacture high-quality performance chemicals, intermediates, and exclusive active pharmaceutical ingredients (APIs) for the world's leading chemical and pharmaceutical companies. The one-site strategy of DOTTIKON ES allows short decision and communication pathways. This ensures quick and efficient project development as well as clear and transparent communication with the customers.

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