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DOTTIKON ES with Sales Increase and Again Loss, but Broader Basis

Dottikon, Switzerland, May 29, 2013 – SIX-listed DOTTIKON ES HOLDING AG closed its business year 2012/13 on March 31, 2013.

- Net sales increased by 3.8% to CHF 84.1 million in comparison with the previous year
- Despite growth in net sales and a further increase in new projects, the return back to profitability has been delayed, as already announced. The momentum of pharmaceutical products in the growth phase was lower than expected, due to heavily increased regulation pressure on drug prices for new approvals to lower health care costs. The result is a net loss of CHF 5.1 million in the reporting period
- Taking into account the various extraordinary effects in the previous-year period having a positive influence on that result, the loss was again in the context of the previous year
- Alongside the main pharmaceutical business and as in the previous period, diversification into performance chemicals was reflected with a non-pharmaceutical share of around 30 percent of newly acquired projects. By contrast, the percentage of non-pharma net sales was still relatively low at around 10 percent in comparison with the pharmaceutical part, which was more than 80 percent and compared to the previous-year period
- The customer and project base continued to broaden. This was on the one hand reflected in the high proportion of expenses for research and development at 12.5 percent of net sales. On the other hand, the share of net sales of products in the maturity phase decreased in favor of development projects and products in the growth phase
- At CHF 36.3 million at the end of the reporting period, the company continues to show furthermore a high stock of cash and cash equivalents as well as fixed deposits. The equity ratio rose again slightly to a robust 87.8%. DOTTIKON ES does not hold any interest-bearing liabilities
- The Board of Directors of DOTTIKON ES HOLDING AG will propose a dividend of CHF 4 per registered share entitled to dividends to the Annual General Meeting on July 5, 2013, and that the remaining retained earnings be carried forward to new account
- Furthermore, the Board of Directors of DOTTIKON ES HOLDING AG is proposing to elect Deloitte AG, Zurich, as the new auditors for the business year 2013/14, in the name of good corporate governance after more than 9 years of uninterrupted service from the previous auditors
- All present members of the Board of Directors will stand for reelection

100 years DOTTIKON EXCLUSIVE SYNTHESIS

This year's report will focus upon the 100-year corporate history of the oldest and operating subsidiary, DOTTIKON EXCLUSIVE SYNTHESIS AG (formerly trading under the name "Schweizerische Sprengstoff-Fabrik AG"). As of May 29, 1913, DOTTIKON EXCLUSIVE SYNTHESIS AG was officially entered into the commercial register under the name "Schweizerische Sprengstoff-Fabrik A.-G." (SSF). The purpose of the company was the manufacturing of explosives. The company was thus founded. This year's Annual Report will give some insight into the 100-year history of the company "from explosives to active pharmaceutical ingredients (APIs)".

In the beginning, SSF was a mixing and production processing of the powdered explosive Aldorfit, used for tunnel construction. Due to the lack of raw materials during the First World War, the forced back integration into distillation of gasworks tar waste was necessary to reclaim toluene, as well as its nitration to produce trinitrotoluene (TNT) – the majority of it for Swiss national defense. After the drop of military explosives needs in the interwar years, the company found its way out of the crisis by entering into the production of gelatinized explosives made of nitroglycerine for civil purposes, and the purification of aromatic isomers for highly purified products through distillation and forward integration into the manufacturing of first chemical intermediates for the dye industry. The Second World War also brought new explosives such as hexogen and nitropenta for military and later also for civil purposes. However, after the Second World War, a fruitless attempt was made to compensate for decreasing business with the confederation and the Swiss army with civilian explosives and distillation products. It became clear that SSF could not survive with its existing product range. A change in direction towards higher, multi-stage intermediates for agrochemicals, dyes, pharmaceutical products and fragrances was gradually implemented over several years by extending the core technologies with catalytic hydrogenation and oxidation. Finally, there was a focused forward integration along the value chain to chemical end products, particularly APIs. Today, DOTTIKON ES is manufacturer of high-quality performance chemicals, intermediates and exclusive APIs for the world's leading chemical and pharmaceutical industry. With the production site in Dottikon (Aargau, Switzerland), the company is specialized in hazardous reactions and is positioning itself as strategic development and manufacturing partner. Its safety culture created over the last 100 years guides innovative use of hazardous reactions, low-temperature and high-pressure chemistry, as well as continuous processing. This shortens conventional chemical synthesis routes, increases yields, selectivities and purities, and reduces waste. The versatile technology and equipment portfolio is used to design, develop and optimize chemical processes, and scale up from kilograms to multi-tons. The one-site strategy allows reduced decision and communication pathways. This ensures rapid and efficient project development as well as clear and transparent communication with customers.

Review

Contrary to original expectations and despite an increase in net sales of 3.8 percent to CHF 84.1 million and a further increase in new projects, it was not possible to return back to profitability. Diversification into performance chemicals, alongside the main pharmaceutical business, was reflected as in the previous period in the proportion of newly acquired projects. The customer and project base was broadened. By virtue of various extraordinary effects in the previous-year period having a positive influence on that result, a net loss of CHF 5.1 million resulted in the reporting period, which was higher in comparison with the previous year. The difference consists mainly of the following effects. The finished and semi-finished goods revalued in the previous year, the value of which was adjusted before due to uncertain sales potential in the business year 2010/11, have balanced out the lower material expenses due to the changed product mix of CHF 3.1 million in the reporting period. By contrast, the higher personnel expenses, which increased by CHF 4.1 million, consist largely of CHF 2.4 million lower employee benefits in the previous period, mainly due to the cost-reducing extraordinary effects from structural adaptations in employee benefits (IAS 19), and higher expenses on wages and salaries of CHF 1.5 million in the reporting period. The latter was required because of an average of 22 additional full-time equivalents to achieve the increased development and validation effort for the higher number of development and growth projects. Together with the other operating expenses, which were CHF 0.4 million higher in the reporting period, chiefly due to higher repair expenditure for the maintenance of existing plants, particularly the high-temperature incineration plant, which is revised every one to two years, the result was an EBITDA that was CHF 6.3 million lower at CHF 5.4 million, as well as an EBIT of CHF –8.8 million, and therefore CHF 6.2 million lower compared with the previous year. The financial result of CHF 0.2 million turned out to be CHF 0.5 million lower than the previous year, largely due to reduced foreign currency transactions as well as more stable exchange rates and therefore decreased income from foreign currency valuation from ongoing covering of foreign currency risks. This resulted in a net loss before taxes of CHF 8.7 million, which was CHF 6.7 million higher than in the previous period. The income taxes for the reporting period included a preferential extraordinary effect of CHF 1.2 million from deferred tax liabilities due to a lower income tax rate at the domicile due to tax law changes applying from 2016. The result was a net loss of CHF 5.1 million, which was CHF 4.4 million higher compared with the previous year.

The result of the higher net loss and the sharp increase in trade receivables of CHF 12.6 million, due to strong sales in the fourth quarter of the reporting period, was an operating cash flow of CHF –10.2 million compared to the previous-year period of CHF 3.8 million. Together with investments of CHF 6.2 million, which were lower than depreciations, and the dividend payment of CHF 5.0 million, the result at the end of the reporting period showed a lower but still comfortable stock of cash and cash equivalents as well as fixed deposits of CHF 36.3 million. As a result of lower deferred tax liabilities and the condensed balance sheet as a result of lower investments, dividend payment and net loss, an even higher equity ratio of a robust 87.8 percent was the result.

The basis for the dividend policy is to distribute existing surplus liquidity, insofar as it is not required for internal growth, while considering the prevailing profit situation and upcoming investments. Although the environment is characterized by uncertainties, the course of business achieved a more solid basis, excluding the extraordinary effects in the previous year, and the planned investments were kept below the depreciations, the Board of Directors is proposing to the Annual General Meeting that a dividend be paid in the order of that of the previous year.

This starting position enables DOTTIKON ES to continue the performance leadership strategy as specialist for hazardous reactions and the positioning as strategic development and manufacturing partner.

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Key Figures DOTTIKON ES Group

CHF million	FY 2011/12	FY 2012/13	Changes
Net sales	**81.0**	**84.1**	+3.8%
Changes in semi-finished and finished goods	4.8	–3.4	
Other operating income	2.4	2.6	
Material expenses	–24.7	–21.6	
Personnel expenses	–37.6	–41.7	
Other operating expenses	–14.2	–14.6	
EBITDA	**11.7**	**5.4**	–54.1%
EBITDA margin (in % of net sales)	*14.4%*	*6.4%*	
Depreciation and amortization	–14.3	–14.2	
EBIT*	**–2.6**	**–8.8**	–240.1%
EBIT margin (in % of net sales)	*–3.2%*	*–10.5%*	
Financial result	0.6	0.2	
Income taxes	1.2	3.5	
Net income (net loss)*	**–0.8**	**–5.1**	–562.5%
Net income (net loss) margin (in % of net sales)	*–1.0%*	*–6.1%*	
Basic earnings (loss) per share (in CHF)*	**–0.63**	**–4.14**	–557.1%
Proposed dividend per share (in CHF)	4.00	4.00	
Cash flow from operating activities	**3.8**	**–10.2**	–366.8%
Capital expenditure	–4.6	–6.2	
Free cash flow	**–0.8**	**–16.4**	

* Reporting year 2012/13: relative change to absolute EBIT or net loss of the previous year, respectively

FY 2011/12: business year from April 1, 2011, to March 31, 2012
FY 2012/13: business year from April 1, 2012, to March 31, 2013

Outlook
Economic uncertainty continues worldwide. In Europe, ongoing weak economic growth for the North and a downturn in the South are to be expected. Social tensions will become more widespread, particularly in the South, and may hold considerable potential for conflict, which could suddenly take off unchecked. Uncertainty still exists about individual states leaving the Eurozone. It is doubtful, whether the expenditure cuts budgeted up to now will be implemented and, if they are, what their consequences will be on consumption and therefore economic growth. China is demonstrating clearly decelerated growth, which as before, largely is carried by investments. Overheating is also in evidence in the field of real estate. The economic prospects are best in the USA, even with restrained growth. The shale gas/oil boom appears to be having a stimulating effect on the manufacturing industry. The conflict over territorial claims in the South China Sea and East China Sea, as well as the unpredictable leadership in North Korea, threaten globally important trade routes. This region continues to become heavily militarized. Money supplies in Japan, the USA, and Europe have been greatly extended and are being massively increased. Concerns about inflation have moved dangerously into the background due to historical and current price stability, despite these facts. These basic conditions have increased the need for like-minded, reliable and trustworthy business partners in regional proximity.
Due to massive regulatory interventions in health care and drug prices to lower health care costs, the pharmaceutical market has entered into a maturity phase. Established segments are subject to heavy price and margin pressure in the West as well as in emerging markets. Profitable growth by innovation is possible within new, but often also smaller, segments which have been neglected up to now, but at a higher risk.
The agricultural market is experiencing an innovative thrust in chemicals due to the increasing requirement for food worldwide, with greater environmental and quality stipulations. The search for more effective, more specific, and therefore more environmentally compatible active ingredients has again been set in motion after decades of neglect.
In various branches of the industry, companies have increasingly been returning to product innovation after years of increasing efficiency in production, due to the worldwide consolidation of individual value chain segments that are made more favorable through accelerated global information exchange, and the use of cost reduction through specializing and scaling synergies. They want to fragment the markets via technological differentiation and specialization, in order to escape from the worldwide mass markets dominated by globally positioned oligopolists, or to break these up.
Despite many uncertainties, this development creates opportunities and the requirement for chemical services, such as the design of cost-effective chemical processes and their rapid development and optimization for timely scale-up into multi-ton production.

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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.
In this current business year 2013/14, DOTTIKON ES expects in the prevailing environment of uncertainty a further increase in net sales due to extending existing business as well as a broadening of customer, project, and product base through new project acquisitions.

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 is positioning itself as strategic development and manufacturing partner. Its safety culture created over the last 100 years guides innovative use of hazardous reactions, low-temperature and high-pressure chemistry, as well as continuous processing. This shortens conventional chemical synthesis routes, increases yields, selectivities and purities, and reduces waste. The versatile technology and equipment portfolio is used to design, develop and optimize chemical processes, and scale up from kilograms to multi-tons.
DOTTIKON ES' one-site strategy allows reduced decision and communication pathways. This ensures rapid and efficient project development as well as clear and transparent communication with customers.

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