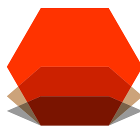
MEDIA RELEASE Dottikon, May 30, 2014

DOTTIKON ES Increases Sales and Operating Profit before Depreciation

Dottikon, Switzerland, May 30, 2014 – SIX-listed DOTTIKON ES HOLDING AG closed its business year 2013/14 on March 31, 2014.

- Net sales of DOTTIKON ES Group rose by 7% to CHF 89.9 million in comparison with the previous year. Growth came from pharma products and performance chemicals, at around 9%
- Total production output – net sales plus inventory changes in semi-finished and finished goods – increased by around 16% from the previous year: on the one hand due to the extension of existing business, and on the other hand through the expansion of the customer, project, and product bases with new acquisitions
- Operating profit before depreciation and amortization (EBITDA) was enhanced by around 255% to CHF 10.3 million (previous year: CHF 2.9 million) and the EBITDA margin rose to 11.5%. Nevertheless, resulting in a net loss of CHF 2.6 million, but considerably lower than the previous year with CHF 7.2 million
- Cash flow from operating activities resulted in CHF 8.4 million and the cash and cash equivalents are at a comfortable level of around CHF 34 million. The equity ratio remains at a solid 88%. DOTTIKON ES has no interest-bearing liabilities
- The Board of Directors of DOTTIKON ES HOLDING AG will propose a revision of the by-laws at this year's Annual General Meeting on July 4, 2014, to ensure ahead of time implementation of the Ordinance against Excessive Compensation at Listed Companies (VegüV), which came into effect on January 1, 2014
- At the same time, a reduction of nominal value per registered share by CHF 4.90 to CHF 0.10, instead of a dividend, is proposed to the Annual General Meeting, and that the retained earnings be carried forward to new account
- All members of the Board of Directors will stand for reelection: Dr. Markus Blocher as Chairman, Dr. Thomas Früh as Deputy Chairman, and Dr. Alfred Scheidegger as member of the Board of Directors
- All members of the Board of Directors are nominated for initial election to the remuneration committee

Assessment of situation
Despite the moderate recovery of the world economy, economic and geopolitical uncertainty persists.
World economic recovery, driven mainly by the economically developed regions, is still under threat from structural weaknesses in important emerging countries, social and political tensions in several regions, unexpected decrease in inflation in developed countries, and related uncertainty with regard to monetary policy and rising real interest rates. This is particularly dangerous due to the not yet concluded definition of measures and their implementation in order to stabilize the financial system as well as a sustainable improvement of public finance in several industrialized countries.



dottikon

Decades of value growth, driven by economies of scales and specialization by worldwide consolidation of value chains and their segments, is exhausted in many industries and shows signs of stagnation. In the short-term game of maximizing profits, long-term investments in industrial innovation, development, and production infrastructure continues to be dangerously neglected. In large global companies, investments have been often lower than deprecations and partially even lower than the amount of their share buyback programs in the recent years. In various industry branches, during years of reducing costs for development and production, companies have neglected product innovation. It is time to view research and development as an investment again, rather than a cost item.

After an unexpected flare-up of crises, firstly in North Africa, then in the Middle East, the breaking out of the first conflict within Europe has come as a surprise to many. The latest Ukraine crisis has exposed to the major powers in the West that they have reduced their forces and therefore military options too much in recent years. A rapid adaption to the new regime will be difficult to achieve under the still strained financial budget. A regionalized world order is emerging again and the global market will continue to break into many regional markets. Europe and the USA will inevitably have to find themselves closer together again, politically and economically.

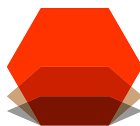
The pharmaceutical market is characterized by the effects of patent expiries, government legislated decreases in drug prices, the promotion of generic drugs and the simultaneous increase in quality requirements and their enforcement. It is true that the pharmerging markets, once so praised by global pharmaceutical companies, are continuing to show considerable annual growth rates of 10 to 20 percent. However, in the last few years, the increase in the market shares of these markets has fallen, particularly in favor of local players, the majority of which have locally produced low-cost generics.

Less more money will flow into health care spending in the industrialized countries in the next few years. Consequently, new innovative drugs and therapies are required to tap and cannibalize the current health care budgets. As a result, the Western global leading generics companies have begun to develop own innovative products and are becoming pharmaceutical companies on their own. Pharmaceutical companies, which have already passed beyond the patent cliff, have started the reengagement to increase the number, and to accelerate the development of new innovative products. In addition, there is a considerable revival of licensing and buy-in activity. The major pharmaceutical companies are striving ambitiously to halve the time to market for new innovative products. The routefinding and decision making of the final chemical synthesis route to the active pharmaceutical ingredient (API) and its process development have been neglected in the preclinical phase in the past years and are now becoming increasingly a critical success factor: the timely availability of the API in adequate amount and quality in order to be able to meet the aggressive timelines of the clinical trials. As the pharmaceutical companies have considerably reduced their own chemical development capacity over the past years, and some even were forced to shut down their production sites by reason of non-compliance with the cGMP quality guidelines for pharmaceutical products, this work is increasingly being outsourced.

Dottikon ES Holding AG
P.O. Box, 5605 Dottikon, Switzerland, Tel +41 56 616 81 11, Fax +41 56 616 81 20, info@dottikon.com, www.dottikon.com

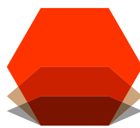
Preference is given to external suppliers which can cover everything from chemical synthesis routefinding, development of chemical processes and analytical methods, multi-step production up to the API and validation to stability testing. The favored suppliers should also have a state-of-the-art development and production infrastructure, an impeccable quality track record, and a broad technology platform, as well as profound experience in the development of chemical processes and production of APIs. The newly shortened time targets in the API development do not enable time-consuming knowledge and process transfer from one supplier to another between two clinical phases, hence pharmaceutical companies wish to have a limited number of interfaces and closely cooperate with a reduced set of strategic partners, which they retain from development up to the market introduction.
All the framework conditions detailed above demand for trustworthy business partners with solid balance sheets, who are culturally and regionally close, innovative, reliable, and effective in rapid implementation.
Investment in technological diversification, innovative specialization in industrialized countries, and the development of regionalization in fragmenting markets are the key to success.

Review
Net sales were increased by 7 percent to CHF 89.9 million in comparison with the previous year. Growth came from pharma products and performance chemicals, at around 9 percent. The total production output – net sales plus inventory changes in semi-finished and finished goods – even increased by around 16 percent from the previous year: on the one hand due to the extension of existing business, and on the other hand through the expansion of the customer, project, and product bases with new acquisitions. Together with an increasing inventory of semi-finished and finished goods, a shift in the project mix to larger products, as well as to higher quality and added value services EBITDA increased by around 255 percent compared to the previous year to CHF 10.3 million. This was achieved in spite of increased personnel expenses for an almost unchanged workforce, due to extraordinary items in the previous year and slightly higher wages and salaries in the reporting period. Additionally favorable were the decreasing other operating expenses of CHF 0.8 million in comparison with the previous year due to lower repair and maintenance expenses. With a nearly unchanged amount of depreciation and amortization, the net loss was reduced by 64 percent, to CHF 2.6 million, and was therefore considerably lower than in the previous year.
The cash flow from operating activities increased by CHF 18.6 million to CHF 8.4 million compared to the previous year, primarily as a result of a lower net loss and decreasing trade receivables, despite an inventory build-up due to growth with cash needs of CHF 3.4 million in the reporting period. Cash flow from investing activities remains almost unchanged in comparison with the previous year. And despite a dividend payment of around CHF 5 million, cash and cash equivalents remain at a comfortable level of around CHF 34 million and the equity ratio stays at a solid 88 percent.



Outlook

In the current environment described before, DOTTIKON ES is in an excellent strategic position. The corporate strategy – performance leadership as a specialist for hazardous reactions – will therefore be continued. The pharmaceutical market is and remains the core market, in which needed sales growth will be achieved to return back to profitability. For this purpose the use of existing plants will be increased and the process development capacity expanded by 20 percent until end of summer 2014. DOTTIKON ES' one-site strategy enables short decision making and effective communication. This guarantees fast and efficient project development as well as clear and transparent communication with customers. DOTTIKON ES keeps focusing on safety, reliability, high flexibility, as well as speed, and is maintaining its position as strategic development and manufacturing partner. To ensure long-term growth, the independent Performance Chemicals project team, created in the previous year, will be further extended, with the objective of developing new own innovative products in the medium term to satisfy yet unmet market needs. Based on this strategic position, DOTTIKON ES generates more added value along the entire product life cycle for its worldwide customers in the chemical and pharmaceutical industries. Through the expansion and development of the project pipeline as well as the potential for growth of some projects acquired and further developed in the past years, DOTTIKON ES is expecting another increase in net sales for the entire current business year 2014/15 in comparison with the previous year and will therefore get one step closer back to profitability.



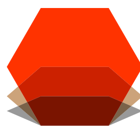
Key Figures DOTTIKON ES Group

CHF million	FY 2012/13[1]	FY 2013/14	Changes
Net sales	**84.1**	**89.9**	+7.0%
Changes in semi-finished and finished goods	–3.4	3.3	
Other operating income	2.5	2.9	
Material expenses	–21.6	–26.1	
Personnel expenses	–44.1	–46.0	
Other operating expenses	–14.6	–13.7	
EBITDA	**2.9**	**10.3**	+254.5%
EBITDA margin (in % of net sales)	*3.5%*	*11.5%*	
Depreciation and amortization	–14.2	–14.1	
EBIT[2]	**–11.3**	**–3.8**	+66.0%
EBIT margin (in % of net sales)	*–13.4%*	*–4.3%*	
Financial result[3]	0.2	0.0	
Income taxes	3.9	1.2	
Net income (net loss)[2]	**–7.2**	**–2.6**	+63.6%
Net income (net loss) margin (in % of net sales)	*–8.5%*	*–2.9%*	
Basic earnings (loss) per share (in CHF)[2]	**–5.76**	**–2.09**	+63.7%
Proposed dividend per share (in CHF)[4]	4.00	–	
Cash flow from operating activities[2]	**–10.2**	**8.4**	+181.9%
Capital expenditure	–6.2	–5.7	
Free cash flow	**–16.4**	**2.7**	

[1] Restated, changes in accounting policy regarding employee's defined benefit plans in accordance with IAS 19 revised
[2] Reporting year 2013/14: relative change to the absolute amount
[3] Including result from associated companies
[4] Instead of a dividend, the Board of Directors proposes for the Annual General Meeting on July 4, 2014, a reduction of share capital by reduction of nominal value per registered share by CHF 4.90 to CHF 0.10

FY 2012/13: business year from April 1, 2012, to March 31, 2013
FY 2013/14: business year from April 1, 2013, to March 31, 2014

Dottikon ES Holding AG
P.O. Box, 5605 Dottikon, Switzerland, Tel +41 56 616 81 11, Fax +41 56 616 81 20, info@dottikon.com, www.dottikon.com



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.
Symbol: DESN
Security number: 2073900
ISIN: CH0020739006

For further information please contact

Markus Blocher, Ph.D.
CEO

Dottikon ES Holding AG
Tel +41 56 616 82 01
Fax +41 56 616 89 45
investor-relations@dottikon.com