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MEDIA RELEASE

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DOTTIKON ES – Tenfold Increase in Net Income in Business Year 2015/16

Dottikon, Switzerland, May 31, 2016 – SIX-listed DOTTIKON ES HOLDING AG closed its business year 2015/16 on March 31, 2016.

- Net income of CHF 14.3 million – ten times higher than a year earlier, net income margin of 11.8 percent
- Net sales of CHF 121.4 million – a 26 percent increase compared to the previous year
- Broad-based growth from pharma – purely organic and self-financed
- Expenses for research and development rose by 13 percent compared to the previous year – 11 percent of net sales
- More than CHF 100 million in investments over the coming two years and creation of new jobs in order to secure further growth
- Unchanged dividend policy – excess liquidity is distributed only to the extent to which it is not required for internal growth
- The Board of Directors proposes that no dividend be paid
- All current members of the Board of Directors and of the Remuneration Committee will stand for reelection

In comparison with the previous year, DOTTIKON ES increased its net sales by 26 percent to CHF 121.4 million. The growth was purely organic, i.e. without any acquisitions of business units, and was entirely self-financed and broad based.
The increase was achieved through an expansion of the existing business and a broadening of the customer, project, and product base through new project acquisitions. The strong growth in sales, the more material-intensive product mix and the increase in inventory in semi-finished and finished goods resulted in an increase in material expenses, with this figure being up 2 percentage points in relation to the production output compared to the previous year. Personnel expenses were up by 11 percent due to an 8 percent increase in the workforce as well as higher inconvenience and overtime compensations amid higher plant utilization. Expenses for research and development increased by more than 13 percent in the reporting period and made up 11 percent of net sales. Other operating expenses rose mainly due to the increase in repair and maintenance as well as in supplies due to the higher utilization. As a result, at CHF 31.8 million, the EBITDA was clearly higher than in the previous year. Slightly higher depreciation and amortization compared to the previous year resulted in an operating income of CHF 16.6 million and a net income of CHF 14.3 million, with the higher earnings contribution made by associated company SYSTAG, System Technik AG having had some positive impact. The EBITDA margin reached 26.2 percent, the EBIT margin rose to 13.7 percent, and the net income margin was 11.8 percent.
Due to a strong fourth quarter in the reporting period, trade receivables were up approximately CHF 24 million, which explains why the cash flow from operating activities fell to CHF 5.9 million and was lower than in the previous year despite a strong increase in net income. Together with a CHF 3.4 million increase in investments, cash and cash equivalents fell to CHF 21.6 million at the end of the reporting period. The equity ratio is 85.5 percent.

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The Board of Directors of DOTTIKON ES HOLDING AG will propose to this year's Annual General Meeting that no dividend be paid and that the entire retained earnings be carried forward to new account. Furthermore, all members of the Board of Directors and of the Remuneration Committee will stand for reelection: Dr. Markus Blocher as Chairman, Dr. Thomas Früh as Deputy Chairman, and Dr. Alfred Scheidegger as member.

Key Figures DOTTIKON ES Group

CHF million	FY 2014/15	FY 2015/16	Changes
Net sales	**96.5**	**121.4**	+25.8%
Changes in semi-finished and finished goods	–1.1	6.7	
Other operating income	2.9	3.1	
Material expenses	–19.8	–29.5	
Personnel expenses	–48.3	–53.7	
Other operating expenses	–14.3	–16.2	
EBITDA	**15.9**	**31.8**	+100.2%
EBITDA margin (in % of net sales)	*16.5%*	*26.2%*	
Depreciation and amortization	–14.5	–15.2	
EBIT	**1.4**	**16.6**	+1'062.1%
EBIT margin (in % of net sales)	*1.5%*	*13.7%*	
Financial result[1]	–0.1	0.5	
Income taxes	0.0	–2.8	
Net income	**1.3**	**14.3**	+973.9%
Net income margin (in % of net sales)	*1.4%*	*11.8%*	
Basic earnings per share (in CHF)	**1.07**	**11.44**	+969.2%
Proposed dividend per share (in CHF)[2]	–	–	
Cash flow from operating activities	**11.4**	**5.9**	–47.9%
Capital expenditure	–10.1	–13.4	
Free cash flow	**1.3**	**–7.5**	

[1] Including result from associated companies
[2] Instead of a dividend, a reduction of share capital by reduction of nominal value per registered share by CHF 4.90 to CHF 0.10 was approved by the Annual General Meeting on July 4, 2014, which was realized in the previous year

FY 2014/15: business year from April 1, 2014, to March 31, 2015
FY 2015/16: business year from April 1, 2015, to March 31, 2016

Assessment of situation

The geopolitical risks continue to rise and the global economic uncertainties persist. The ongoing regionalization has given rise to a tripolar world order. Economic and fiscal conflicts, proxy wars, and military provocation at the borders of the areas of influence have intensified, with the respective shifts in cultural values and large flows of migration. The influence of the expansive fiscal policies has reached its limits in terms of economic stimuli, and worries about the long-term effects are increasingly coming to the fore. Possible financial market distortions would swiftly deteriorate the financing conditions for companies and public budgets. China's challenging structural changes represent significant risks for the global economy. The low energy prices have only provided limited consumption stimuli. The drop in prices for fossil fuels had a negative impact on the economic development and the scope of action of the producing countries. Given Europe's structural and political weakness, the necessary structural reforms fail to materialize, which dampens the region's economic development.

The demographic trend ensures long-term value growth in the pharmaceutical market. Aging populations based on rising life expectancies in industrialized nations as well as population growth and an increase in wealth in emerging markets result in an increase in chronic illnesses and the respective demand for effective treatments. The sales slump attributable to state-imposed health care cost cuts via drug price regulation and measures to boost the market penetration of generics, along with favorable financing conditions, has become an important innovation driver. The lack of price regulation in the United States, which is the largest drug market, combined with favorable financing conditions, supports the outlook for high profits in the market of innovative drugs. As a result, record sums have been channeled into the US and European biotech industry, reaching historical highs. Under these conditions, the previously neglected area of pharmaceutical innovation received fresh impetus. Over the last five years, the number of active ingredients introduced into the market increased by a quarter compared to the previous 5-year period. In 2015, a peak of new drugs was approved in the United States that had not been reached since the mid-90s. Contrary to popular belief over the last few years that the trend was exclusively in favor of products with lower volumes and sales, blockbuster drugs have made a comeback. For the coming years, a further increase in market introductions of new APIs is expected. The expected annual growth rates of the global pharmaceutical industry over the coming few years is 7 percent.

Today, the currently rather unlikely introduction of strict European-style price regulation for prescription drugs in the United States would be the biggest threat to the pharma industry's bright outlook. With a combination of US price regulation and a swift increase in interest rates around the globe or a renewed financial crisis, fund flows into the biotech industry would quickly run dry and curb its innovation power in the medium term. Warning signals include the declines in the number of IPOs and of raised capital in the biotech IPO market, although the declines are less steep compared to other industries. These are indications that the pharmaceutical market continues to be attractive for financial investors relative to other industries.

The positive development of the pharma market in combination with the reduction in high-quality API manufacturing capacities seen over the last two decades creates a very promising perspective for providers of exclusive synthesis that offer high-quality process development and API manufacturing applying a versatile set of technology.

The promising global pharma pipeline filled with innovative products, the further tightening of quality requirements for API manufacturing, the higher number of cGMP steps in chemical API synthesis and larger manufacturing volume requirements, a climate of distrust toward low-cost producers in Asia, and the common lack of process development and manufacturing experience and capacity among biotech and pharmaceutical companies have already created first bottlenecks in high-quality, technologically proficient chemical process development and API manufacturing capacities. This trend is set to become even more apparent over the coming years.

Outlook

In the current pharmaceutical environment, DOTTIKON ES remains well positioned amid the ongoing expansion of process development capacities over the last few years as well as the initiated large-scale investments in further capacity expansion. The corporate strategy – strategic partner and specialist for hazardous reactions – therefore remains: By using enabling technology, DOTTIKON ES develops and manufactures high-quality, demanding chemical products safely and efficiently. DOTTIKON ES assesses the risks properly and steadily minimizes their potential impact and/or probability of occurrence. DOTTIKON ES collaborates closely with its customers and cultivates an integrated partnership. By applying its full development and manufacturing capabilities, DOTTIKON ES supports its customers in the successful execution of their strategy. In doing so, DOTTIKON ES creates more value for its customers than its competitors.

The pharmaceutical market is and remains the main market in which profitable growth in net sales will be achieved. Amid this effort, capacity utilization of the existing infrastructure will be increased. In order to achieve the expected net sales growth in the medium term, the API drying and multipurpose manufacturing capacities are in expansion and the construction of a new facility for laboratories and offices is in preparation. A further expansion of the multipurpose production capacities is in evaluation. Against this background, investments will rise substantially in the current and the following few years. The respective financing options are currently in evaluation. DOTTIKON ES continues to focus on safety, reliability, high flexibility, and speed and thereby strengthens its position as strategic development and manufacturing partner.

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 its customers. The 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, maintained and continuously expanded to design, develop and optimize chemical processes, and rapidly scale up from kilograms to multi-tons and to produce and deliver the respective market quantities. In order to ensure long-term growth, the independent Performance Chemicals project team will develop new own innovative products to satisfy currently unmet market needs.

Against the background of the described positive development in the pharma market and the further development and expansion of the product pipeline, DOTTIKON ES anticipates a further increase in net sales and net income in the business year 2016/17 compared to the previous year.

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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.
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