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DOTTIKON ES – Further Increase in Net Sales and Net Income

Dottikon, Switzerland, November 27, 2015 – DOTTIKON ES Group, positioned as strategic development and manufacturing partner and specialized in the area of hazardous reactions and the exclusive synthesis of fine chemicals, closed its first business half-year 2015/16 on September 30. In the first half of the current business year, net sales were more than 10 percent higher than in the previous year, with pharma growing by around 20 percent. The production output – net sales plus inventory changes in semi-finished and finished goods – even rose by 31 percent. Existing projects were further developed and represented a significant and broad-based growth factor. As a result, at CHF 8.1 million, the operating profit before depreciation and amortization was clearly higher (previous year: CHF 2.8 million). The growth in net sales, combined with an increase in inventory in semi-finished and finished goods of CHF 9.8 million from customer orders, resulted in a net income of around CHF 1.0 million (previous year: CHF –3.2 million).
The operating cash flow fell to CHF 3.3 million (previous year: CHF 17.6 million), mainly due to preparatory efforts for future growth. With the initiated expansion of production capacity and the related increase in investments, the cash outflow was CHF 3.1 million in the reporting period. Cash and cash equivalents amounted to a comfortable level of CHF 26.0 million at the end of the reporting period. The equity ratio remains at a solid 86 percent.
For the full business year 2015/16, DOTTIKON ES expects to extend its existing business and to further broaden its client, project, and product base. As a result, DOTTIKON ES anticipates a further increase in net sales and net income compared to the previous year.

After an economic revival in the United States and a muted recovery in the eurozone, economic and geopolitical uncertainties once again intensified toward the end of the reporting period. The quest for short-term absolute return amid a scenario in which low interest rates falsely suggest low relative risk spirals company valuations higher. Private equity investors use this opportunity to divest their companies via IPOs. If the scenarios that cause the current uncertainties become a reality, these excessive prices could result in substantial losses in net asset value, send renewed shockwaves through the international financial markets and place the global monetary policy under renewed, intense pressure to take measures. The multipolar interests of the superpowers add fuel to the military disputes in the Middle East and have caused new waves of migration to Europe that, following the Ukraine crisis, bring the current geopolitical tension another step closer to core Europe.
Amid increasing uncertainties and an ongoing focus on regionalization, values such as trust, reliability, and sustainability – along with cultural and geographical proximity – continue to gain importance.
The demographic trend in developed and emerging economies ensures long-term volume growth in the pharmaceutical market. With the exception of the United States, governments around the globe strive to contain the inevitable increase in health costs with price regulation. Given that the United States have not yet regulated the prices of drugs, the global pharmaceutical companies set very high prices for prescription drugs in this market. Over the last few months, the prices have often been systematically increased even further. With a market share of more than 40 percent, the United States with their high prices are the most important market for innovative

drugs. More than 60 percent of new drugs were first filed and approved in the United States. The prospect of very high profits with innovative drugs in the United States in combination with favorable financing conditions has channeled historically high sums into the US and European biotech industry and has driven M&A and IPO volumes to new all-time highs. However, the related price excesses have also turned drug price regulation into a topic for the presidential election campaigns, which represents a threat to the pharma industry's high profitability.

Cost and innovation pressure, a disproportionate increase in demand for generic drugs, patent expiries, and the demand for new innovative drugs for a more effective and efficient treatment of illnesses and rare diseases are further drivers of the current financing and consolidation wave in the pharma industry. The large pharmaceutical companies focus on special indication areas and acquire market shares and innovation. They purchase biotechs with promising fast-track development projects or new technology platforms in order to make up for their low research productivity. With such transactions, they create added value by applying their market approval, commercialization and distribution competence to the value realization of the purchased biotech innovations. In order to secure fast market access at low production costs and with the required high quality levels, and thus to justify their expensive acquisitions, pharmaceutical companies struggle with the challenge of securing chemical synthesis routes and subsequent process development in short times, as both areas had been neglected in the early phases. The timely availability of active pharmaceutical ingredients (APIs) in sufficient quantity and quality is a critical success factor in this process. Given that many large pharmaceutical companies have drastically reduced their own chemical development as well as manufacturing capacities and that many of them or their suppliers face difficulties with regulatory authorities for non-compliance with cGMP, such tasks are increasingly outsourced to reliable and trustworthy strategic development and manufacturing partners that are able to deliver the required quality.

They tend to prefer partners that are able to provide the full range of services from chemical synthesis routefinding, the development of chemical processes and analytical methods, and multi-step API production, including validation and stability studies. On the one hand, the partners should possess cutting-edge development and production infrastructure, an impeccable quality track record, and a broad technology platform, while on the other hand having profound experience in the development of chemical processes and the production of APIs. Pharmaceutical companies are interested in maintaining a very limited number of interfaces and are interested in cooperating closely with a select group of strategic partners throughout all stages from development up to market introduction.

The current conditions reinforce the need for trustworthy business partners that offer cultural and regional proximity and are innovative, reliable, and fast when it comes to implementation.

Over the coming five years, around 200 new drugs are expected to receive market approval. The biggest threat to this promising outlook in the area of exclusive synthesis for the pharmaceutical industry is the introduction of strict price regulation of prescription drugs in the United States in combination with fast interest rate hikes. This would quickly and significantly dampen the injection of funds into the biotech industry and thus result in a lack of innovation and a further increase in price pressure.

At the end of the first half of the business year, net sales stood at CHF 43.2 million, more than 10 percent higher than a year earlier, with pharma growing by around 20 percent. The production output – net sales plus inventory changes in semi-finished and finished goods – even rose by 31 percent. Existing projects were further developed and represented a significant and broad-based growth factor. Compared to the previous year, the improved product mix with higher added value resulted in a 187 percent EBITDA increase to CHF 8.1 million. Net sales growth in combination with substantially higher costs related to preparatory efforts for further future growth – as a result of customer orders with an increase in inventory in semi-finished and finished goods of CHF 9.8 million and disproportionately higher material and personnel expenses – along with depreciation and amortization at a level almost unchanged from the previous year at CHF 7.0 million resulted in a net income of around CHF 1.0 million in the first half of the business year compared to the net loss of CHF 3.2 million reported a year earlier.
Due to an increase in net sales toward the end of the reporting period, the reduction in trade receivables was CHF 7.6 million below the figure reported a year earlier. The increase in inventory related to preparatory efforts for future growth rose by another CHF 6.0 million compared to a year before. Cash inflows from other current liabilities in the year-earlier period exceeded the current reporting period's figure by CHF 6.4 million, mainly due to prepayments from customers for the future fulfillment of orders. As a result, the operating cash flow fell to CHF 3.3 million (previous year: CHF 17.6 million). With the initiated expansion of production capacity and the related increase in investments, the cash outflow was CHF 3.1 million in the reporting period. Cash and cash equivalents amounted to a comfortable level of CHF 26.0 million at the end of the reporting period. The equity ratio remains at a solid 86 percent.

DOTTIKON ES' corporate strategy – strategic partner and specialist for hazardous reactions – is reaffirmed: 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. DOTTIKON ES continues to focus on safety, reliability, high flexibility, and speed and is positioned as strategic development and manufacturing partner and performance leader.
In order to achieve the expected net sales growth in the medium term, DOTTIKON ES is increasing its API drying and multipurpose production capacities and is preparing the construction of a new facility for laboratories and offices. As a result, at CHF 100 million, the accumulated investment volume over the coming three years will be clearly higher than in the last few business years.
For the full business year 2015/16, DOTTIKON ES expects to extend its existing business and to further broaden its client, project, and product base. As a result, DOTTIKON ES anticipates a further increase in net sales and net income compared to the previous year.

Key Figures DOTTIKON ES Group

CHF million	FY 2014/15	HY 2014/15	HY 2015/16
Net sales	**96.5**	**39.1**	**43.2**
EBITDA	**15.9**	**2.8**	**8.1**
EBITDA margin (in % of net sales)	*16.5%*	*7.2%*	*18.8%*
EBIT	**1.4**	**–4.3**	**1.1**
EBIT margin (in % of net sales)	*1.5%*	*–11.0%*	*2.6%*
Net income (net loss)	**1.3**	**–3.2**	**1.0**
Net income (net loss) margin (in % of net sales)	*1.4%*	*–8.1%*	*2.3%*
Cash flow from operating activities	**11.4**	**17.6**	**3.3**
Capital expenditure	–10.1	–4.8	–6.4
Free cash flow	**1.3**	**12.8**	**–3.1**

FY: business year from April 1, 2014, to March 31, 2015
HY: business half-year from April 1 to September 30

The Annual Report 2015/16, covering the period from April 1, 2015, to March 31, 2016, will be presented on May 31, 2016.

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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.
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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