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DOTTIKON ES – Strong Sales and Income Growth and Higher Profitability

Dottikon, Switzerland, May 30, 2017 – SIX-listed DOTTIKON ES HOLDING AG closed its business year 2016/17 on March 31, 2017.

- Net sales of CHF 151.7 million – a 25 percent increase compared to the previous year
- Net income of CHF 22.2 million – a 55 percent increase compared to the previous year
- Net income margin of 14.6 percent – 2.8 percentage points higher compared to the previous year
- Growth was purely organic, self-financed, and broad based
- Creation of 50 new jobs
- Expenses for research and development rose by 6.6 percent compared to the previous year
- Additional production and development capacities were put into action. Further capacity expansion is ongoing
- Excess liquidity to be invested in future growth – the Board of Directors proposes to the Annual General Meeting that no dividend be paid
- The Board of Directors proposes to the Annual General Meeting the election of KPMG AG, Zug, as the new auditors for the business year 2017/18
- All current members of the Board of Directors and of the Remuneration Committee will stand for reelection

Assessment of situation

The geopolitical risks continue to rise and the global economic uncertainties persist despite an improvement in short-term forecasts. Amid increasing uncertainties and ongoing regionalization, values such as trust, reliability, and consistency – along with cultural and geographical proximity – continue to gain importance.
Regionalization has given rise to a tripolar world order centered on the United States, Russia, and China, who gradually extend their power and influence. The unpredictability of the new US president and his administration has so far had a disciplinary effect on Russia's and China's governments as well as on smaller potential troublemakers. Economic and fiscal conflicts, proxy wars, and military provocation at the borders of these areas of influence continue to increase. Europe still lacks direction, is crumbling, and feels intense pressure from ongoing migration flows. Potentates exploit this changing, multipolar environment marked by short-term power vacuums to strengthen their position and build autocratic structures. Military rearmament efforts are on the rise around the globe. In order to obtain geopolitical security and secure a future Europe without wars, it will be of essence whether the Western alliance acts as one and reinforces its military capability.
Global economic growth remained tepid in the reporting period. Industrial activity and international trade have picked up. This notwithstanding, the medium to long-term economic growth rates are subject to considerable risks, with emerging trade wars based on intensified protectionism in advanced economies representing a major risk factor. The necessary – although not very popular – reforms to promote growth in the long run are deferred. The main problems must be addressed urgently: (i) the sharp increase in social spending and subsidies resulting in high

government debt; (ii) excessive regulation based on individual interests; (iii) the ailing educational system with unequal opportunities and a lack of neutral and independent knowledge transfer and enhancement; and (iv) the threats to safety and freedom due to terrorism, digital surveillance, and crime. These problems intensify social and political tension. Procrastinating the implementation of reforms and opting for harmful overregulation inevitably lead to corruption, abuse of power, and one-sided enrichment. Once the critical level is exceeded, social turmoil culminating in revolution with all its suffering and chaos is a likely consequence.

To avert this outcome, there is a need for more selfless leaders with integrity, long-term visions, strength of implementation, and stamina. There is a need for more entrepreneurship and less management. There is a need for people who take responsibility and create value rather than those who skim these values off. There is a need to give more room to federalism and competition in order to pave the way for long-term innovation and prosperity.

Contrary to the monotonous and unchallenged international pabulum harmonization, healthy competition is an incentive in its own right. The goals are more innovation and higher productivity with simple rules in an environment marked by individual responsibility, an education based on equal opportunities with the promotion of individuals with strong practical and mental capabilities, demanding and encouraging adaptability, as well as the protection of and respect for property.

The demographic trend continues to ensure further long-term volume 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. In combination with cheap capital, state-imposed efforts to curb health care costs via measures to boost the market penetration of generics and to accelerate the market approval of novel drugs are key innovation drivers. With still little regulation on drug pricing, the US market plays an important role in supporting the outlook for relatively fast and high profits with innovative drugs. Profitable growth mainly stems from specialty drugs. In this area, small molecules – a field in which DOTTIKON ES is active – are regaining market share from the biologics sector. While patent expiries threaten roughly CHF 140 billion of global pharma sales over the next five years, the US pharmaceutical drugs market is expected to show annual growth rates of around 8 percent until 2020, with the global pharmaceutical market set to rise by around 5 percent annually. With rising government debt and health care cost growth that continually beats GNP growth, there is a call for more drug price transparency, which mounts pressure on pharma prices.

Threats to this very promising outlook of the pharmaceutical market are the introduction of strict price regulation in the United States, swift interest rate hikes that would reduce capital inflow into innovative biotech companies, or adverse events associated with fast-track market approvals and inadequate safety tests, which would result in stricter approval requirements and hence in market entry delays.

This positive development of the pharma market in combination with the mechanistic changes in the manufacturing supply chain of active pharmaceutical ingredients 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.

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The last few years showed that chemical manufacturers in Asia often failed to live up to the high pharma quality requirements. In addition, making up for the deferred synthesis route selection and subsequent chemical process development amid fast-track development projects, which make up the major part of all US approvals, became a key success factor. Nearly half of all complete response letters issued by the FDA for APIs that were not approved were linked to problems in API manufacturing. Given that many phamaceutical companies had drastically reduced their own chemical development capacity years ago, such key tasks are now increasingly outsourced to the few remaining reliable, trustworthy, and established strategic development and manufacturing partners that are able to deliver the required quality. The market for outsourced API manufacturing is expected to continue to grow. Given that the manufacturing of biologics is more demanding in terms of quality than that of small molecules, many pharmaceutical companies have repurposed their small molecule plants for the manufacturing of biologics or have built capital-intensive new buildings for biologics. In contrast, the manufacturing of small molecules is increasingly outsourced. Despite the pharma exclusive synthesis market consolidation seen over the last few years, this market remains fragmented, with the key players only amassing a market share of less than 5 percent each.

In API outsourcing, pharmaceutical companies prefer partners that are able to provide the full range of services from chemical synthesis routefinding, the development of chemical processes and analytical methods to multi-step API manufacturing, 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 manufacturing of APIs. In addition, pharmaceutical companies are interested in maintaining a very limited number of interfaces and cooperate with a select group of strategic partners throughout all stages from development up to market introduction and supply.

The global pharma pipeline today is filled with promising and innovative products. A 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, as well as the increasing outsourcing of small molecule API manufacturing and the common lack of process development and manufacturing experience and capacity among biotech and pharma 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 few years: With this business area having been unattractive over the last few years, many of the former cGMP customer synthesis providers have exited this field or are, based on the crucial experiences over the last two decades, currently unwilling to make capital-intensive investments in high-quality development and manufacturing capacities.

Review

In comparison with the previous reporting year, net sales increased by 25 percent to CHF 151.7 million. The growth was purely organic, i.e. without any acquisitions of business units, and was self-financed and broad based. The increase was achieved through an expansion of the existing business and a further broadening of the customer, project, and product base through new project acquisitions.

Key Figures DOTTIKON ES Group

CHF million	FY 2015/16	FY 2016/17	Changes
Net sales	**121.4**	**151.7**	+25.0%
Changes in semi-finished and finished goods	6.7	–0.9	
Other operating income	3.1	4.2	
Material expenses	–29.5	–28.6	
Personnel expenses	–53.7	–53.3	
Other operating expenses	–16.2	–24.5	
EBITDA	**31.8**	**48.6**	+52.7%
EBITDA margin (in % of net sales)	*26.2%*	*32.0%*	
Depreciation and amortization	–15.2	–21.9	
EBIT	**16.6**	**26.7**	+60.5%
EBIT margin (in % of net sales)	*13.7%*	*17.6%*	
Financial result[1]	0.5	0.1	
Income taxes	–2.8	–4.6	
Net income	**14.3**	**22.2**	+55.3%
Net income margin (in % of net sales)	*11.8%*	*14.6%*	
Earnings per share (in CHF)	**11.44**	**17.74**	+55.1%
Proposed dividend per share (in CHF)	–	–	
Cash flow from operating activities	**5.9**	**57.0**	+862.1%
Capital expenditure	–13.4	–27.9	
Free cash flow	**–7.5**	**29.1**	

[1] Including result from associated companies

FY 2015/16: business year from April 1, 2015, to March 31, 2016
FY 2016/17: business year from April 1, 2016, to March 31, 2017

Expenses for research and development increased by 6.6 percent and made up 9.4 percent of net sales in the reporting period. Despite a significant net sales increase, the product mix containing more added value and the decrease in inventory in semi-finished and finished goods resulted in a 3.3 percent decrease in material expenses. Personnel expenses were down by 0.7 percent despite a 9.9 percent increase in the average workforce. An extraordinary financial accounting income of around CHF 6 million related to IAS 19 due to the reduction of the technical interest rate and the related conversion rate combined with an increase in savings contributions resulted in a reduction of the defined benefit obligations. According to IFRS, these are fictitiously assigned to the company and had a beneficial one-time effect on the personnel expenses. Other operating expenses rose by CHF 8.4 million compared to the previous period. This was mainly due to environmental provisions for soil rehabilitation (former storage tank area) of CHF 5.6 million and the higher utilization and larger equipment infrastructure that resulted in an increase in repair and maintenance as well as in supplies of CHF 2.8 million. Combined with a CHF 1.0 million increase in capitalized own production related to an increase in investments, EBITDA was around CHF 16.8 million higher than in the previous year and stood at CHF 48.6 million. The EBITDA margin rose to 32.0 percent (previous year: 26.2 percent). Depreciation and amortization rose by CHF 6.7 million mainly due to value adjustments on rectification plants with a view to the closure of the solvent recycling business for third parties and infrastructure. Operating income was CHF 26.7 million (previous year: CHF 16.6 million), and net income was CHF 22.2 million (previous year: CHF 14.3 million). The EBIT margin rose to 17.6 percent (previous year: 13.7 percent), and the net income margin was 14.6 percent (previous year: 11.8 percent).
At CHF 57.0 million, cash flow from operating activities was clearly higher than in the previous year. Combined with an increase of CHF 14.5 million in investments for property, plant and equipment as well as in intangible assets, cash and cash equivalents and fixed deposits rose to CHF 50.7 million at the end of the reporting period (previous year: CHF 21.6 million). This will be used to finance the ongoing increase in investments. The equity ratio remains at a solid 81.8 percent.

Outlook
In the current pharmaceutical environment, DOTTIKON ES remains well positioned amid the ongoing expansion of process development capacities over the last years as well as the large-scale investments in further capacity expansion concluded or initiated in the reporting year 2016/17. The 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.
The pharmaceutical market is and remains the main market in which profitable growth is achieved. For this purpose, capacity utilization of the existing infrastructure will be increased. In order to achieve the expected net sales growth in the medium term, new laboratory and office

facilities as well as a raw material, intermediate material and API warehouse will be built and the API drying capacities will be expanded. In addition, the planning and engineering phases for a further expansion of the chemical multipurpose production capacities are continued. Against this background, investments will rise substantially in the current and the following few years. Respective external financing options are in evaluation.

DOTTIKON ES continues to focus on safety, reliability, high flexibility, and speed and is thus strengthening 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 develops new own innovative products to satisfy currently unmet market needs and bring them closer to market readiness.

Against the background of the described positive outlook 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 2017/18 compared to the previous year.

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