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DOTTIKON ES – Higher Sales, Growth Impacts Margins

Dottikon, Switzerland, November 28, 2017 – DOTTIKON ES Group, positioned as strategic development and manufacturing partner and specialized in the area of hazardous reactions and the exclusive synthesis of active pharmaceutical ingredients (API) and fine chemicals, closed its first business half-year 2017/18 on September 30, 2017.
In the first half of the current business year, net sales were 4 percent higher than in the previous year. The production output – net sales plus inventory changes in semi-finished and finished goods – rose by 9 percent. The increase was driven by the pharma sector and reflects ongoing strength in demand. Due to growth-related advance performances, material and personnel expenses as well as other operating expenses rose disproportionately and resulted in lower margins compared to the previous year. Net income was CHF 9.6 million (previous year: CHF 9.5 million). Cash flow from operating activities stood at CHF 39.0 million in the reporting period. Despite higher cash flow for investing activities in property, plant and equipment, cash and cash equivalents and fixed deposits rose from CHF 50.7 million to CHF 74.5 million. The equity ratio stands at a solid 80.9 percent.
For the full business year 2017/18, DOTTIKON ES anticipates a further increase in net sales and net income against the background of ongoing demand from the pharma market as well as the further development and expansion of its project pipeline.

Global economic growth continued to improve in the period under review. Still, despite the brighter economic situation, inflation rates in industrialized nations largely remain low. Central banks on the whole maintain their expansive policies. The economic risk continues to rise. High government debt, low interest rates and the still low raw material and energy prices currently clash with increasing geopolitical tension, which creates a dangerous combination. Given the fickle unpredictability of the United States under their new president, options for the United States to counter Russia's demonstration of military might and expansion of power in the west as well as China's state-imposed forward integration and its hegemonic claim to power through the Belt and Road Initiative remain limited. The absence of profound reforms in Europe gives rise to shifts in the balance of political power and to secessionist tendencies. Potentates around the globe exploit this changing, multipolar environment marked by short-term power vacuums to strengthen their position by means of provocation or the creation of autocratic structures. This fosters ongoing regionalization and growing uncertainty. Amid this environment, values such as trust, reliability, and consistency – along with cultural and geographical proximity – continue to gain importance.

The demographic trend and the accelerated market approval for novel drugs, combined with inexpensive capital, are key innovation drivers and guarantee further long-term volume growth in the pharmaceutical market. Despite state-imposed efforts to curb health care costs, promote generics and biosimilars and contain excessive drug price hikes, global pharma drug sales volumes are expected to grow by 6 to 7 percent annually over the next five years. Global research and development costs of pharmaceutical companies will remain high and are set to continue to dottikon

grow moderately over the coming five years. In the United States, the market expects more than 50 drug approvals this year.
Risks to this positive development are: (i) the currently not yet expected introduction of strict price regulation in the United States; (ii) swift interest rate hikes; and (iii) the occurrence of adverse events associated with novel drugs after fast-track market approvals.
Yet regardless of the mentioned risks, the increased molecular complexity, higher regulatory requirements, changed mechanics in the supply chain and the cutback in high-quality process development and manufacturing capacities create promising opportunities for high-quality, technologically advanced exclusive synthesis providers that are specialized in the process development and manufacturing of active pharmaceutical ingredients.
Reliable, trustworthy, and established strategic development and manufacturing partners that are able to deliver the required quality and to provide the full range of services from chemical synthesis routefinding, the development of chemical processes and analytical methods to multi-step API production, including validation and stability studies, remain in demand. 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 and design of chemical processes and the production of APIs. In addition, pharmaceutical companies are interested in having a very limited number of interfaces and in cooperating closely with a selected group of strategic partners throughout all stages from development to market introduction and supply. This trend is set to accentuate further in the coming years.

In the first half of the current business year, net sales were 4 percent higher than in the previous year. The production output – net sales plus inventory changes in semi-finished and finished goods – rose by 9 percent. The increase was driven by the pharma sector and reflects ongoing strength in demand. Due to growth-related advance performances and investment in the build-up of qualified personnel as well as inventory and capacity expansion, material (up 20 percent) and personnel expenses (up 8 percent with an increase in the workforce of 5 percent) rose disproportionately. In addition, at 14 percent, the increase in other operating expenses was clearly higher than in the previous year due to higher maintenance costs related to higher plant capacity utilization and larger equipment infrastructure as well as aperiodic plant revisions. As a result, at CHF 20.1 million, EBITDA was slightly below the previous year's figure, and the EBITDA margin was 28.6 percent (previous year: 30.1 percent). Due to slightly lower depreciation and amortization compared to the previous-year period, EBIT remained at the previous year's level of CHF 11.5 million. In combination with the financial result, net income rose slightly to CHF 9.6 million (previous year: 9.5 million), while the net income margin stood at 13.8 percent, slightly below the previous year's 14.1 percent. Cash flow from operating activities was CHF 39.0 million in the reporting period, down CHF 17.1 million, mainly due to a significant overhang reduction in trade receivables in the previous year. Cash flow for investing activities in property, plant and equipment rose by 22 percent compared to the previous year to CHF 15.3 million related to chemical multipurpose pharma production capacities that were expanded and put into operation. Despite this, cash and cash equivalents and fixed deposits rose from CHF 50.7 million to CHF 74.5 million. The equity ratio stands at a solid 80.9 percent.

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Key Figures DOTTIKON ES Group

CHF million	FY 2016/17	HY 2016/17	HY 2017/18
Net sales	**151.7**	**67.6**	**70.1**
EBITDA	**48.6**	**20.4**	**20.1**
EBITDA margin (in % of net sales)	*32.0%*	*30.1%*	*28.6%*
EBIT	**26.7**	**11.5**	**11.5**
EBIT margin (in % of net sales)	*17.6%*	*17.0%*	*16.4%*
Net income	**22.2**	**9.5**	**9.6**
Net income margin (in % of net sales)	*14.6%*	*14.1%*	*13.8%*
Cash flow from operating activities	**57.0**	**56.1**	**39.0**
Capital expenditure	–27.9	–12.5	–15.4
Free cash flow	**29.1**	**43.6**	**23.6**

FY: business year from April 1, 2016, to March 31, 2017
HY: business half-year from April 1 to September 30

The Annual Report 2017/18, covering the period from April 1, 2017, to March 31, 2018, will be presented on May 31, 2018.

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 thereby strengthens its position as strategic development and manufacturing partner and performance leader.
The pharmaceutical market is and remains the main market with ongoing growth potential. This is visible in rising demand for existing and new development capacities and production plants. In order to realize the expected sales growth in the medium term, significant additional chemical development and API drying capacities are built and existing ones expanded. Further, the planning for a new raw material, intermediates, and API warehouse as well as the engineering for a new chemical multipurpose API production plant are driven forward. Against this background, investments will continue to rise in the current and the following years. Respective external financing options are in evaluation.

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For the full business year 2017/18, DOTTIKON ES anticipates a further increase in net sales and net income against the background of ongoing demand from the pharma market as well as the further development and expansion of its project pipeline.

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
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