MEDIA RELEASE

Dottikon, May 28, 2019

DOTTIKON ES – Stronger Second Half-Year, Full Business Year 2018/19 Below Previous Year

Dottikon, Switzerland, May 28, 2019 – SIX-listed DOTTIKON ES HOLDING AG closed its business year 2018/19 on March 31, 2019. Net sales and net income for the full business year 2018/19 remained below the previous year's result, despite a clearly stronger second business half-year 2018/19.

For the second business half-year 2018/19,

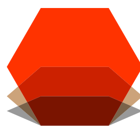
- Net sales were CHF 91.1 million, 3.3 percent above the previous-year period and 61.0 percent higher than in the first business half-year 2018/19
- EBITDA stood at CHF 30.1 million (previous year: CHF 27.2 million), EBITDA margin was 33.0 percent (previous year: 30.8 percent)
- EBIT was CHF 17.8 million, or CHF 21.8 million without impairment (previous year: CHF 19.4 million), EBIT margin was 19.5 percent, or 23.9 percent, respectively (previous year: 22.0 percent)
- Net income was CHF 14.3 million, or CHF 17.5 million without impairment (previous year: CHF 16.2 million), net income margin was 15.6 percent, or 19.2 percent, respectively (previous year: 18.5 percent),

which illustrates the accelerated momentum of the second business half-year 2018/19.

For the full business year 2018/19, due to the weak first business half-year,

- Net sales were CHF 147.7 million, 6.6 percent less compared to the previous year
- EBITDA stood at CHF 39.9 million (previous year: CHF 47.1 million), EBITDA margin was 27.0 percent (previous year: 29.7 percent)
- EBIT was CHF 20.2 million (previous year: CHF 30.8 million), EBIT margin was 13.6 percent (previous year: 19.5 percent)
- Net income was CHF 16.3 million (previous year: CHF 25.8 million), net income margin was 11.0 percent (previous year: 16.3 percent)
- The result was dampened by an impairment of CHF 4 million, as planning for the basic design for a new chemical multipurpose plant performed in the reporting year was partially impaired due to challenging subsoil foundation properties
- Investments rose by 30 percent to CHF 52.7 million into additional development and production capacities

For the ongoing business year 2019/20, further investments in additional capacities are planned in order to capture medium and long-term growth. For the ongoing full business year 2019/20, DOTTIKON ES expects net sales above the previous year.



The Board of Directors proposes to the 2019 Annual General Meeting

- No dividend payment
- Reelection of all members of the Board of Directors and the Remuneration Committee
- Reelection of KPMG AG, Zug, as auditors

Key Figures DOTTIKON ES Group for the business year (FY)

CHF million	FY 2017/18 [1]	FY 2018/19	Changes
Net sales	**158.2**	**147.7**	–6.6%
Changes in semi-finished and finished goods	4.2	12.2	
Other operating income	3.9	5.4	
Material expenses	–35.9	–39.5	
Personnel expenses	–64.2	–66.3	
Other operating expenses	–19.1	–19.6	
EBITDA [2]	**47.1**	**39.9**	–15.3%
EBITDA margin (in % of net sales)	*29.7%*	*27.0%*	
Depreciation and amortization	–16.3	–19.7	
EBIT [3]	**30.8**	**20.2**	–34.5%
EBIT margin (in % of net sales)	*19.5%*	*13.6%*	
Financial result [4]	0.5	–0.6	
Income taxes	–5.5	–3.3	
Net income	**25.8**	**16.3**	–37.1%
Net income margin (in % of net sales)	*16.3%*	*11.0%*	
Earnings per share (in CHF)	**20.67**	**13.00**	–37.1%
Proposed dividend per share (in CHF)	–	–	
Cash flow from operating activities	**39.2**	**38.2**	–2.6%
Capital expenditure	–35.7	–48.8	
Free cash flow [5]	**3.5**	**–10.6**	

[1] Restated, change of accounting standard from IFRS to Swiss GAAP FER
[2] EBITDA: earnings before interest, taxes, depreciation on property, plant and equipment, and amortization on intangible assets
[3] EBIT: earnings before interest and taxes
[4] Including result from associated companies
[5] Cash flow from operating activities and cash flow from investing activities in property, plant and equipment and intangible assets

FY 2017/18: business year from April 1, 2017, to March 31, 2018
FY 2018/19: business year from April 1, 2018, to March 31, 2019

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Review
At CHF 147.7 million, net sales in the business year 2018/19 were 6.6 percent lower than in the previous year. Compared with the already strong second half of the previous business year, net sales for the second business half-year 2018/19 rose by 3.3 percent to CHF 91.1 million. The production output for the full business year – net sales plus inventory changes in semi-finished and finished goods – declined by 1.6 percent compared to the previous year. The strong increase in semi-finished and finished goods by CHF 12.2 million reflects the high order volume for the ongoing business year 2019/20. Despite lower net sales, together with the more material-intensive product mix, this increase in inventory resulted in a CHF 3.6 million increase in material expenses compared to the previous year. DOTTIKON ES' increase in personnel expenses of 3.2 percent was roughly at par with the 3.3 percent buildup in the average full-time equivalent employees to handle the strong increase in order volumes and rise in market demand in the second business half-year. In the reporting year, existing projects and customer relationships were further developed, while new projects were acquired and new customer relations were built. Overall, this contributed significantly to the broad-based growth in the second half of the business year 2018/19. In the reporting year, lower net sales, the increase in semi-finished and finished goods, the related increase in material expenses, and higher personnel expenses resulted in an EBITDA of CHF 39.9 million, 15.3 percent lower than in the previous year, and an EBITDA margin of 27.0 percent (previous year: 29.7 percent). When looking at the second business half-year alone, EBITDA was CHF 30.1 million (previous year: CHF 27.2 million), thus 10.8 percent above the previous-year period. The EBIDTA margin for this period was 33.0 percent (previous year: 30.8 percent). Depreciation and amortization for the full business year 2018/19 stood at CHF 19.7 million, thus 21.2 percent above the previous-year figure, mainly due to an impairment of CHF 4 million. Performed planning for a new chemical multipurpose plant in the business year 2018/19 was partially impaired due to challenging subsoil foundation properties that forced a redimensioning of the project. In the reporting year, higher depreciation and amortization resulted in an EBIT of CHF 20.2 million and a net income of CHF 16.3 million, 34.5 percent and 37.1 percent below the previous year's results, respectively. The EBIT margin stood at 13.6 percent (previous year: 19.5 percent), the net income margin at 11.0 percent (previous year: 16.3 percent). In the second business half-year and excluding the impairment, the EBIT margin was 23.9 percent (previous year: 22.0 percent) and the net income margin was 19.2 percent (previous year: 18.5 percent), which illustrates the accelerated momentum of the second business half-year.

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Key Figures DOTTIKON ES Group for the second business half-year (2nd HY)

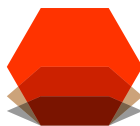
CHF million	2nd HY 2017/18 [1]	2nd HY 2018/19	Changes
Net sales	**88.1**	**91.1**	+3.3%
EBITDA [2]	**27.2**	**30.1**	+10.8%
EBITDA margin (in % of net sales)	*30.8%*	*33.0%*	
EBIT [3]	**19.4**	**17.8**	–8.5%
EBIT margin (in % of net sales)	*22.0%*	*19.5%*	
EBIT without impairment [3, 4]	19.4	21.8	+12.1%
EBIT margin (in % of net sales)	*22.0%*	*23.9%*	
Net income	**16.2**	**14.3**	–12.4%
Net income margin (in % of net sales)	*18.5%*	*15.6%*	
Net income without impairment [4]	16.2	17.5	+7.6%
Net income margin (in % of net sales)	*18.5%*	*19.2%*	

[1] Restated, change of accounting standard from IFRS to Swiss GAAP FER
[2] EBITDA: earnings before interest, taxes, depreciation on property, plant and equipment, and amortization on intangible assets
[3] EBIT: earnings before interest and taxes
[4] Without impairment of CHF 4 million: amid basic design planning for a new multipurpose plant, the project has to be redimensioned due to challenging subsoil foundation properties

2nd HY 2017/18: second business half-year from October 1, 2017, to March 31, 2018
2nd HY 2018/19: second business half-year from October 1, 2018, to March 31, 2019

Despite a significant increase in cash outflows from investments in additional development and production capacities by around 37 percent to CHF 48.8 million, cash and cash equivalents only decreased by CHF 10.7 million to CHF 43.8 million thanks to strong cash flow from operating activities of CHF 38.2 million (previous year: CHF 39.2 million). The equity ratio remained around 80 percent.

Assessment of situation
Geopolitical risks with the key players United States, Russia, and China remain present and unpredictable. This intensifies the potential for economic and fiscal, but also military conflicts. Global economic risks persist and have increased due to record global debt and a slowdown of the economic momentum. Demographic developments, the accelerated market approval for generics, biosimilars, and novel drugs, the attempt by the US government to reduce drug prices, and the steep rise in drug demand in China, combined with inexpensive capital, are key volume growth and innovation drivers in the pharmaceutical market.
The demographic developments continue to ensure further long-term volume growth. Global life expectancy continues to rise, even though it has started to lose momentum in industrialized nations where life expectancy is already at high levels. The aging population, and hence the demand for drugs, continue to rise.



Due to state-imposed efforts to boost generics and cut health care costs, the global volume share of generics for prescription and over-the-counter drugs has increased to around 90 percent, but given the lower prices, they only account for 40 percent of global sales. The sales share of patent-protected drugs remains at around 60 percent, and with annual growth rates of 4 to 7 percent in the coming years, it is set to outgrow the generics share, where growth is expected at 2 to 5 percent. Contrary to the tactics adopted by the rest of the world, the United States have so far tried to curb the rising health care costs by stepping up the economic competition. Pharmaceutical companies tried to combat the pressure from rebates by continually increasing their list prices. This has focused public attention on the steep increase in drug list prices and animated politicians to step up for drug price regulation. At this point, the overall impact of these measures is not clear yet.

Innovation of biopharmaceutical companies remains high. In 2018, the FDA approved a record 59 novel drugs. At roughly three-quarters, the share of small molecules was comparable to the previous year. On average, the FDA is expected to approve more than 50 novel drugs annually over the coming 5 years. Small and medium-sized biotech companies account for a significant percentage of innovation, and they increasingly introduce their products into the market by themselves. Large pharmaceutical companies are facing lower returns on their research and development expenses due to a lack of in-house innovation.

For the years ahead, expected annual growth rates for the global pharmaceutical market stand at 3 to 6 percent, slightly below the growth rates seen over the last few years. More than 50 percent of global growth is linked to the 3 main indication areas oncology, diabetes, and autoimmune diseases. The main growth markets will be the United States and the currently second-largest pharma market China, followed by the most important European nations Germany, Italy, France, Great Britain, and Spain. In China, economic growth over the past few years and the improved health care system have given more Chinese patients access to drugs.

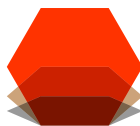
Due to a still promising pharmaceutical market for innovative drugs, low interest rates, and a lack of investment alternatives, financing in the biotech sector remains favorable. Many biotechs have taken advantage of the favorable financing environment and have raised enough money to finance their main activities for a few years. A radical financial market correction, however, could have a significant detrimental impact on the currently intact environment. In less favorable financing conditions, biotechs will reduce their expenses and focus their resources on the most promising product candidates.

The trend to repatriate drug substance and drug product manufacturing from Asia to the West continues, mainly driven by concerns regarding supply, quality, intellectual property, intensified regulatory pressure of US and European authorities, and rising costs. In addition, demand for chemical process and analytical method development, API manufacturing including related services and documentation, and the respective outsourcing thereof is on the rise. Large pharmaceutical companies have reduced their development capacities and production plants significantly amid extensive restructuring programs, while smaller biotechs have little interest in building own process development and production capacities. Custom Development and Manufacturing Organizations (CDMOs) play a vital role in rendering these services as well as in diversifying approval risks and quantity requirement volatility. In addition, biotechs can rely on the long-standing Chemical Manufacturing Control experience of CDMOs for the proper supporting data and documentation required for the market approval application. CDMOs are expected to be strategic partners with a long-term perspective, rather than opportunistic service providers. Reliability, an impeccable

quality track record, and profound experience are key criteria in selecting a CDMO, as a change in CDMO is time-consuming and switching costs are high.
The global pharma pipeline is promising and full of innovation. Market approval processes have accelerated and competitive pressure is intensifying. Quality requirements continue to increase, resulting in longer cGMP sequences in chemical API synthesis, and foster higher manufacturing volume requirements. In combination with the increased repatriation and outsourcing of small molecule API production, the lack of process development and production experience and capacities among biotech and pharmaceutical companies has already created first bottlenecks in high-quality, technologically proficient chemical process development and API manufacturing capacities. This creates a promising perspective for high-quality, technologically experienced, and specialized CDMOs such as DOTTIKON ES, particularly in API manufacturing.

Outlook

In the current pharmaceutical environment, DOTTIKON ES remains well positioned to capture the imminent medium-term growth potential amid the continuously expanded process development, analytical, API manufacturing, and drying capacities and long-term growth potential due to additional investments.
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 cultivates an integrated partnership with its customers. 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 thus strengthening its position as strategic development and manufacturing partner.
The pharmaceutical market is and remains DOTTIKON ES' main market with ongoing growth potential. In order to capture this growth, a new laboratory facility with additional process development and analytical capacities has been built, and additional capacities for large-scale API drying were created. In addition, DOTTIKON ES intends to increase utilization of its existing plants with targeted debottlenecking investments in order to capture the expected medium-term sales growth. In addition, the planning for a new raw material, intermediates, and API warehouse and the redesign and subsequent resumption of the planning activities for a new multipurpose API production plant aim to secure DOTTIKON ES's long-term growth. Furthermore, DOTTIKON ES has initiated the planning for additional pilot plant and API drying capacities. Against this background, investments will remain high also for the ongoing business year 2019/20. From today's point of view, DOTTIKON ES currently evaluates external financing options to finance its capacity expansion plans from 2020. In order to ensure long-term growth, DOTTIKON ES' independent Performance Chemicals project team develops new proprietary innovative products to satisfy currently unmet market needs outside the pharmaceutical market and brings these products closer to market readiness.
DOTTIKON ES' one-site strategy allows short decision and communication pathways. This ensures rapid and efficient project development as well as clear and transparent data and process documentation and customer communication. The safety culture created over 105 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. DOTTIKON ES uses, maintains and continuously expands its versatile technology and equipment portfolio to design, develop, and optimize chemical processes for the scale-up from kilograms to multi-tons to produce and deliver the respective market volumes.
For the ongoing full business year 2019/20, DOTTIKON ES expects net sales above the previous year's figure.

DOTTIKON ES HOLDING AG is listed at the SIX Swiss Exchange.
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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 105 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.