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DOTTIKON ES – Further Growth, Expansion is Progressing

Dottikon, Switzerland, May 28, 2021 – 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 business year 2020/21 on March 31, 2021.

- Net sales increase to CHF 218.9 million, up 25.2 percent compared to the previous year (PY)
- EBITDA increase by 44.0 percent to CHF 79.8 million
  - EBITDA margin of 36.4 percent (PY: 31.7 percent)
- EBIT increase by 66.3 percent to CHF 60.6 million
  - EBIT margin of 27.7 percent (PY: 20.9 percent)
- Net income rose by 57.8 percent to CHF 52.3 million
  - Net income margin of 23.9 percent (PY: 19.0 percent)
- Cash outflows from investments rose by 17.9 percent to CHF 52.4 million due to ongoing expansion activities
- The Board of Directors proposes to the Annual General Meeting of July 2, 2021
  - No dividend payment
  - Reelection of all members of the Board of Directors and the Remuneration Committee in their current function
  - Reelection of KPMG AG, Zug, as auditors

Review
At CHF 218.9 million, net sales in the business year 2020/21 were 25.2 percent higher than in the previous year and were broad-based in terms of products and customers. The production output for the full business year – net sales plus inventory changes in semi-finished and finished goods – even rose by 30.1 percent compared to the previous year. Next to an increase in sales, the steeper increase was due to a stronger rise in semi-finished and finished goods and the processed raw materials contained therein, which are also reflected in the higher material expenses. The increase in semi-finished and finished goods results from the high order volume for which production and processing have already started. Other operating income remained nearly unchanged compared to the previous year. At CHF 66.7 million, material expenses were 48.6 percent higher than in the previous year and represented 27.7 percent of the production output, 3.5 percentage points above the previous year. Personnel expenses rose by 7.5 percent to CHF 75.1 million in the business year 2020/21, with a large part of the increase due to a 5.4 percent staff buildup to 639 full-time equivalents and the remainder mainly attributable to higher salaries. In combination with other operating expenses, which were up 19.5 percent compared to the previous year, EBITDA rose by 44.0 percent to CHF 79.8 million, with an EBIDTA margin of 36.4 percent (PY: 31.7 percent). At around CHF 19 million, depreciation and amortization were slightly higher than in the previous year. EBIT rose by 66.3 percent to CHF 60.6 million compared to the previous year, with an EBIT margin of 27.7 percent (PY: 20.9 percent). The financial income was

CHF 1.2 million and was below the previous year's figure. Net income stood at CHF 52.3 million (PY: CHF 33.2 million), and the net income margin was 23.9 percent (PY: 19.0 percent). Compared to the previous year, cash flow from operating activities rose by 37.3 percent to CHF 60.0 million. Cash outflows from investments amounted to CHF 52.4 million, 17.9 percent above the previous year. The equity ratio is a strong 85.5 percent.

Assessment of situation

The COVID-19 pandemic since early 2020 and the corresponding government-imposed measures to combat the virus have shaped the international economic situation. After a partial relaxation of the measures in summer 2020 and the subsequent short-term recovery, a further wave of infection in late 2020 and throughout spring 2021 brought about a renewed tightening of the measures and slowed down global economic growth once again. After more than a year under government-imposed restrictions, however, many economic sectors have come to terms with the new framework and have found ways to pursue their productive activities nonetheless. With the approval and increasingly broad-based availability of various vaccines, restrictions in the United States and Europe might be lifted gradually, and a return to normalcy can therefore be expected for the second half of 2021. Accordingly, the economic recovery should gain momentum, with first signs thereof already visible – along with the respective distortions in the global value and logistics chains, as supply had aligned itself downwards and stabilized at a low level in reaction to the marked drop in demand in the early stages of the pandemic and the significantly changed demand mix. With the market showing signs of partially sharp recovery, also driven by pent-up demand, integrated production and logistics once again have to adapt to the new mix and the higher demand and bring decommissioned capacities back into operation. For the time being, this has resulted in price hikes due to a demand overhang.

In the short term, the monetary and fiscal measures taken in response to COVID-19 have created an important safety net for the economy, but they also gave rise to unprecedented government debt. Central banks have financed, either directly or indirectly, a large portion of this increase in government debt. The world has never seen higher debt levels than today. At the same time, long-term interest rates are lower than ever before. If this changes, it will become increasingly difficult for many states to meet their interest and debt repayment obligations.

In the course of globalization, many companies focused on rapid value growth through the utilization of global economies of scale. In other words, they focused on specialization and consolidation of value chains and segments via outsourcing and a concentration on a small number of suppliers in countries with low manufacturing costs. Research and development for long-term innovation, proprietary in-house production and strategic supply security had been neglected in favor of short-sighted, rapid profit-making. In early 2020, COVID-19 abruptly revealed the danger of dependence on a few geographically concentrated producers. This being said, these dangers did not materialize to the extent initially feared, as the bottlenecks seen at the onset of the pandemic, especially in the health care sector, were primarily the result of a surge in demand rather than a supply disruption problem. Still, the danger, the strategic weaknesses and interdependencies of the geopolitically rivaling forces as well as the potential fallout from a disruption of the global value chains became brutally apparent.

The dynamics of the tripolar world order led by the United States, China, and Russia have changed as a result of the lessons learned from the pandemic, the intensified assertion of interests by China, which recovered earlier from the pandemic, and the reactivation of old alliance policies by the new administration in the United States. Given their similar core interests, the United States and Europe have grown closer again. As a response and based on pragmatic opportunism, Russia and China are also closing ranks. The strategic front therefore runs along the geographic regions of Eastern Europe, the Middle East, and Southeast Asia. In addition, global internet connectivity has given the power struggle a digital dimension with misinformation and cyberattacks in enemy territory, which is increasingly used in an effort to fan social tension and inflict economic damage on the opponent.

In the event of a major armed escalation between the power poles, the high degree of specialization, concentration, and organization of the value chains and their segments harbors an immense economic, technological, and cultural destruction potential. This threat awakens the need for a reduction of geopolitical dependencies and thus a realignment of interest ties. To this end, the rivaling parties strive for economic unbundling. The implementation is – particularly for globally positioned large companies – a demanding, long-lasting and complex path. Values such as consistency, trust, and reliability as well as cultural regional anchoring and proximity have become important in establishing a trust base for building new or expanding existing business as well as political relations. As a consequence, the repatriation and regionalization trends continue. Even at higher costs, the value chains for sensitive goods are given a broader regional base in the interest of achieving greater supply security. For the coming decade, therefore, reindustrialization will gain traction in Europe as well as in the United States. Only those who mine, extract, and manufacture will have unrestricted access to goods.

Demographic developments and the related rise in drug demand, the accelerated market approvals for generics, biosimilars, and novel drugs as well as government attempts to reduce drug prices remain key medium- and long-term volume growth and innovation drivers in the pharmaceutical market. In addition, the demographic trend ensures stable volume growth in the long term. Global life expectancy will continue to rise, even if it is at lower rates than in the previous years in industrialized countries and may even decline in the short term in countries with a high proportion of older people in the population due to COVID-19. In the medium term, life expectancy is set to rise not least thanks to progress in the treatment of cancer, the world's second most common cause of death. The global increase in sales volumes expected in the medium term is around 3 percent per year, which roughly corresponds with the population growth of the group of people aged 65 and over. The overall annual sales market for all prescription drugs is around CHF 1'300 billion, with patent-protected products accounting for 60 percent of the total and generics/biosimilars representing the remaining 40 percent. 90 percent, or more than CHF 700 billion, of patent-protected drugs are sold in developed countries. Over the last five years, global drug sales grew by around 7 percent annually. Nearly 50 percent of the sales increase over the last five years took place in the United States, which accounts for more than 40 percent of the market share, followed by Europe and then China. Over the coming five years, overall global drug sales are expected to grow at 5 percent annually, and at 7 to 8 percent for the patent-protected innovative drugs, divided into biologics with expected growth rates of 8 to 9 percent

and small molecules with growth rates of 6 to 7 percent. In 2020, the Food and Drug Administration (FDA) approved 53 new drugs, a 10 percent increase over the previous year. More than 75 percent of the new drugs were small molecules, and 70 percent were expedited reviews for approval. The European Medicines Agency (EMA), meanwhile, approved 55 new drugs in 2020, an increase of more than 80 percent over the previous year. Due to the well furnished biotech/pharma pipeline, analysts estimate that the FDA will approve 50 to 70 new drugs per year over the coming five years, of which 60 percent are expected to be small molecules. At the beginning of 2021, the biotech/pharma pipeline was filled with around 19'000 drugs in the development phase, the vast majority of which are small molecules. The top-10 biotech/pharma companies based on market capitalization account for 5 percent of this pipeline, the following 15 companies (top-11 to top-25) for a further 9 percent. The relative share of the top-25 companies of the overall pipeline has more than halved over the last ten years, while companies with as little as one or two drug candidates in the development phase account for nearly 20 percent of the overall biotech/pharma pipeline. Today, more than 5'000 companies are active in drug development, more than four times as many as 20 years ago. Here, too, the United States account for the largest share with 46 percent, followed by Europe with 24 percent and China with 9 percent. Sources of funding for biotech/pharma companies and their respective development pipelines remain abundant. In 2020, biotech/pharma companies raised CHF 110 billion in equity worldwide, far outpacing the previous all-time high of CHF 75 billion set in 2018.
An improved molecular biological understanding of the human metabolism and the improved early scientific selection of working drug candidates, the accelerated market approval, attractive return prospects for innovative drugs, and the high inflow of funds all contribute to an increase in the number of drug candidates and approved drugs. The increasingly specific and targeted drugs have more complex and longer manufacturing sequences, which results in a higher number of production steps under the strongly regulated current good manufacturing practice (cGMP) quality standards for API production. As a consequence, demand for high-quality development and production capacities is rising steeply, which will inevitably result in shortages in high-quality and technologically versatile chemical process development and API manufacturing capacities. This holds particularly true for small molecules, as regional demand for chemical development and production capacities is also driven by cross-industry repatriation as a consequence of stricter environmental regulation in Asia as well as the geopolitical situation. Initial signs of shortage are already visible.

Outlook

DOTTIKON ES started preparing for the expected increase in demand years ago. In a first phase, it invested in additional development and quality management capacities. In a second phase, it expanded production capacities in existing plants and eliminated bottlenecks through targeted investments in order to increase their output. Two of these expansions are now becoming operational. The current third phase that was initiated roughly four years ago and will keep DOTTIKON ES busy over the next few years focuses on the construction and commissioning of new chemical production and drying plants for APIs. During the next seven years, DOTTIKON ES will invest around CHF 600 million in new chemical production and drying plants for APIs as well as in infrastructure and create of over 200 new jobs in Production and Technology/Engineering at its Dottikon site (Aargau, Switzerland). The new API drying plant will become operational in 2024, followed by a new chemical API production plant in 2025 and subsequently a new chemical API pilot plant. This will double the available high-quality production capacity at the site and allow DOTTIKON ES to capture disproportionate market growth in the custom synthesis of small molecule APIs. In the current business year 2021/22, investments will rise again significantly. The long-term financing of the expansion activities was secured in the business year 2020/21, largely by committed loan agreements for CHF 130 million and a capital increase of around CHF 200 million in shareholders' equity. DOTTIKON ES' one-site 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 small molecule pharmaceutical API market is and remains DOTTIKON ES' main market with ongoing growth potential. The utilization of existing plants is increased with targeted debottlenecking investments and efficiency improvements until the new plants become operational. In order to secure long-term growth, DOTTIKON ES' independent Performance Chemicals unit continues to develop new, innovative products to satisfy currently unmet market needs outside the pharmaceutical market and brings these products closer to market readiness.

For the ongoing full business year 2021/22, DOTTIKON ES expects net sales above the previous year's figure.

Key Figures DOTTIKON ES Group

CHF million	FY[1] 2019/20	FY[1] 2020/21	Changes
Net sales	**174.8**	**218.9**	25.2%
Changes in semi-finished and finished goods	10.2	21.7	
Other operating income	6.3	6.3	
Material expenses	–44.8	–66.7	
Personnel expenses	–69.9	–75.1	
Other operating expenses	–21.2	–25.3	
EBITDA[2]	**55.4**	**79.8**	44.0%
EBITDA margin (in % of net sales)	*31.7%*	*36.4%*	
Depreciation and amortization	–18.9	–19.2	
EBIT[3]	**36.5**	**60.6**	66.3%
EBIT margin (in % of net sales)	*20.9%*	*27.7%*	
Financial result[4]	1.5	0.6	
Income taxes	–4.8	–8.9	
Net income	**33.2**	**52.3**	57.8%
Net income margin (in % of net sales)	*19.0%*	*23.9%*	
Proposed dividend per share (in CHF)	–	–	
Cash flow from operating activities	**43.7**	**60.0**	37.3%
Investments[5]	–44.4	–52.4	
Free cash flow[6]	**–0.7**	**7.6**	

[1] FY 2019/20: April 1, 2019, to March 31, 2020; FY 2020/21: April 1, 2020 to March 31, 2021
[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] Investments: Cash flow from investing activities in property, plant and equipment and intangible assets
[6] Cash flow from operating activities and cash flow from investing activities in property, plant and equipment and intangible assets

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DOTTIKON ES manufactures high-quality performance chemicals, intermediates, and exclusive active pharmaceutical ingredients (APIs) for the world's leading chemical, biotech, and pharmaceutical industry. The company with its production site in Dottikon (Aargau, Switzerland) is specialized in hazardous reactions and positions itself as strategic development and manufacturing partner and performance leader. Its safety culture created over the past 105 years guides the innovative use of hazardous reactions, low-temperature and high-pressure chemistry, as well as continuous processing in order to challenge, tighten, or shorten conventional chemical synthesis routes, improve selectivities, yields, and purities, and reduce waste. The versatile technology and equipment portfolio is used, maintained, and continuously expanded to design, develop, and optimize chemical processes and technical manufacturing procedures for the rapid scale-up from kilograms to multi-tons in order to produce and deliver the respective market volumes.
DOTTIKON ES' one-site strategy allows reduced decision and communication pathways. This ensures rapid and efficient project development, clear and transparent data and process documentation, and close customer communication.

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