2022/23 Condensed Half-Year Report

More than Hazardous Reactions.

Content

The Half-Year Report 2022/23 in English includes only condensed financial information.
The comprehensive Half-Year Report 2022/23 is available in German.

Dear Shareholder,

A well-thought-out implementation plan is the basis for being able to react quickly and target-oriented to changes by adapting the plan to new circumstances and ensuring the subsequent execution. In the coming ten years, it is all about effectiveness and efficiency in a rapidly changing environment.

> "It is not the strongest or the most intelligent who survive,
> but those who can best adapt to change."
>
> Charles Robert Darwin, 1809–1882

Assessment of situation

As a result of what is apparent to become a Russian attrition war in Ukraine, the tripolar world order is accentuating into a two-pole northern West-East split-up between the two strong opponents for world supremacy, the United States and China. The armed conflict and threat at the eastern border have forced Europe to position and orient themselves more toward the United States. Due to severe military failures and economic sanctions, Russia is weakened and increasingly isolated and loses political traction. This, in turn, is freeing up forces of the United States to focus increasingly on China in the Indo-Pacific region, its real competitor for dominance in the international order. According to the United States' National Security Strategy report, China is the only competitor in the world that not only has the intention to reshape the world order, but also has the economic, diplomatic, military, and technological power to do so. The United States view the coming ten years as the self-declared decisive decade in this matter.

According to forecasts by the International Monetary Fund (IMF), global economic growth will almost halve in 2022 compared to 2021 and is set to weaken further in 2023. The remaining growth expected by the IMF will be as weak as last seen 20 years ago. For the first time, all three of the largest economic regions – the United States, Europe, and China – will be significantly weaker at the same time. Whether this still rather benign scenario will become a reality depends primarily on the actions of central banks and governments, as measures to fight inflation and consumer costs cancel each other out. In other words, a targeted weakening of economic demand by reducing the money supply through interest rate hikes to curb inflation cannot take place at the same time as states are subsidizing loss of purchasing power by increasing government debt levels. In essence, the IMF forecast mentioned earlier has two opposing risk scenarios: either an end with fright because of overly fast and high interest rate hikes by central banks – or fright without end because of excessive state-sponsored strengthening of demand and thus systemic anchoring of inflation.

CO_2 emissions are the product of population size multiplied by prosperity (economic output), energy efficiency (amount of energy required per activity), and CO_2 intensity (amount of CO_2 emitted per usable energy unit). Technological progress can improve energy efficiency and CO_2 intensity. The most important drivers, however, remain population size and degree of prosperity. A growing population with increasing prosperity leads to high energy and material consumption and therefore to significant entropy increase (cf. the term "entropy" as defined in the second law of thermodynamics) and as a result to more disorder or destruction. If the functioning social structures with population growth and increasing prosperity are to be maintained, we will have to accept the associated increase in entropy. The challenge lies in the sustainable organization of this entropy increase.

With the decommissioning of coal and nuclear power plants and the delayed expansion of new power generation facilities, the low-snow winters, hot and dry summers, as well as reduced gas supply volumes from Russia, the risk of gas and electricity shortages in Europe – and therefore also in Switzerland – has increased significantly. Gas and electricity prices rose steeply as a result. Since the expansion and building of sufficient new alternative energy generators and energy storage capacities as well as the corresponding infrastructure to close the energy supply gaps will take at least another 15 years, gas and electricity shortages, along with high electricity prices, are to be expected repeatedly in the coming years, especially in winter. It is therefore pivotal to secure energy supply by creating a political framework that does not hinder the economy from providing the necessary energy with excessive bureaucracy.

The next 10 to 15 years will be a battle for energy to establish militarily secured economic supremacy for the preservation of prosperity, democracy, and freedom. It is about the economic unbundling of the northern West from the East, which requires a resettlement of energy-intensive and environmentally challenging industries that were carelessly outsourced in the past. This structural change will at first require a lot of energy and will be expensive. It should therefore be carried out as entropy-efficiently and economically as possible so that long-term sustainability aspirations are not compromised but may still be financed in the future. Thus, the following principles, simplified and listed according to their priority, apply: (1) more efficient and longer use of existing structures; (2) recycling and reuse of existing structures at high value levels; and (3) focus on more sustainable approaches when expanding or replacing existing structures with new ones.

A sustainable, entropy-efficient energy transition – the entropy transition (according to Prof. Dr. J. Michael Köhler) – first requires time to unbundle geopolitical ties to the East, while dealing with major economic distortions at the same time. In more specific terms, this means the immediate construction of oil/gas-combined cycle power plants to bridge the recurring energy shortages in the winter in the short and medium term. Existing structures shall continue to be operated efficiently and safely as long as possible. This includes the continued operation of existing nuclear power plants and the expansion of hydropower plants, especially with pumped storage, as well as the construction of new sustainable energy generators at advantageous locations in terms of generation and existing distribution infrastructure, for example alpine photovoltaic plants at pumped-storage hydropower plants or new hydro, wind, and nuclear power plants. These must be promoted, taking into account the favorable generation and distribution costs.

In the event of a major armed or economic escalation between the geopolitical power poles, the high degree of specialization, concentration, and organization of the value chains and their segments bear an immense potential for economic, technological, and cultural loss. This threat awakens the need for a reduction in geopolitical dependence and a corresponding realignment of interest linkages. Values such as consistency, trust, and reliability as well as cultural regional anchoring and proximity form an important trust base for building new or expanding existing business as well as political relations. Therefore, repatriation through near- and onshoring as well as the regionalization trends continue. Even at higher costs, the value chains for sensitive goods are given a strategically broader regional base in the interest of achieving greater supply security. For the coming decade, therefore, reindustrialization – and hence the demand for (fossil) energy – will gain traction in Europe as well as in North America. Only those who explore, mine, extract, and manufacture will have unrestricted access to goods.

Demographic developments in an increasingly aging population with the associated rise in drug demand, particularly in developed countries with high purchasing power, the accelerated market approvals for novel drugs, the growth of biosimilars, as well as government attempts to reduce drug and health care costs remain key medium- and long-term volume growth and innovation drivers in the pharmaceutical market. In addition, the demographic trend ensures stable fundamental volume growth in the long term. Global life expectancy will continue to rise in the medium term, not least thanks to progress in the treatment of cancer, the world's second most common cause of death. In countries with lower and declining purchasing power, sales volumes will fall, and access to drugs will become more limited. Over the last five years, global drug sales grew by around 7 percent annually. For the coming five years, weaker annual growth rates of 4 to 5 percent are expected. The annual growth outlook for the segment of patent-protected innovative drugs, however, is higher, at 7 to 8 percent, divided into biologics with expected growth rates of 8 to 10 percent and small molecules with growth rates of 4 to 7 percent. In 2021, the US Food and Drug Administration (FDA) approved

50 new drugs (2020: 53), 72 percent (previous year: 75 percent) of which were small molecules and 74 percent (previous year: 68 percent) were expedited reviews for approval. The European Medicines Agency, meanwhile, approved 54 new drugs in 2021, one fewer than a year before. 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 contributed to the high number of drug candidates and novel drug approvals over the last few years. Due to the well-furnished biotech/pharma pipelines, analysts have estimated until now that around 55 to 65 new drugs per year would be approved worldwide over the next five years. Over the last five years, the average was 25 new drugs per half-year. However, in the first three quarters of this year, the FDA only approved 26 new drugs, 19 of which in the first half of 2022. Over the last two half-year periods, the number of new drug approvals declined by 20 percent each compared to the previous period. The reasons are assumed to be delayed clinical studies and thus regulatory filings because of the pandemic, as well as staff shortages and management changes at the FDA. It remains to be seen whether this trend will continue against the background of geopolitical changes, rising inflation, and interest rate hikes. For the coming years, biotechs still dispose of sufficient financial resources to drive the business forward operationally and strategically, even though raising new funds has become more challenging. However, in a prolonged period of tense financial market conditions, weaker pipeline growth and lower approval rates are to be expected.

The increasingly specific and more targeted drugs lead to more complex and longer manufacturing routes, which results in a higher number of production steps under the strongly regulated current good manufacturing practice (cGMP) quality standards for the production of APIs. Consequently, the need and demand for high-quality development and manufacturing capacities continue to rise, increasingly resulting in shortages in available chemical process development and production capacities. This holds particularly true for small molecules, as regional demand for chemical development and manufacturing capacities from other industries is also on the rise due to the current geopolitical change. These generally positive market dynamics for Customer Development and Manufacturing Organizations (CDMOs) may be significantly hampered by the developments described before. The greatest risk factors are a lack of energy and electricity supply, resulting in less readily available raw materials or equipment, as well as a declining level of information and organization, the drying up of financial inflows, and a reduction of health care costs through stricter government price regulation.

Review

DOTTIKON ES started preparing for the expected increase in demand for chemical development and manufacturing capacities related to steadily increasing regulatory requirements, innovation, and repatriation years ago. In a first phase, it invested in additional development and quality management capacities. In a second phase, production capacities in existing plants were expanded and bottlenecks were eliminated through targeted investments in order to increase their output. The current third phase focuses on the construction of new chemical production and drying plants for APIs, new warehouse capacities, and infrastructure expansion. In addition, it is important to secure the energy supply in the short, medium, and long term.

In the first business half-year, net sales of DOTTIKON ES were CHF 133.8 million, up 31.4 percent compared to the previous-year period. The strong growth and the accompanying rise in production output were broad-based in terms of products and customers. The production

KEY FIGURES, APRIL–SEPTEMBER

CHF million (unaudited)	2021	2022	Changes
Net sales	101.8	133.8	31.4%
EBITDA	38.4	47.1	22.6%
EBITDA margin (in % of net sales)	37.7%	35.2%	
EBIT	27.8	37.5	34.9%
EBIT margin (in % of net sales)	27.3%	28.0%	
Net income	23.9	38.9	62.8%
Net income margin (in % of net sales)	23.5%	29.1%	
Cash flow from operating activities	12.0	49.4	312.7%
Employees (FTEs, six-month average)	658	670	1.8%

output for the first business half-year – net sales plus inventory changes in semi-finished and finished goods – thus rose by 37.6 percent compared to the previous-year period. Material expenses doubled compared to the previous-year period to CHF 53.9 million and represented 34.1 percent of the production output, which, due to the steep rise in energy and raw material prices, was 10.8 percentage points or 46.4 percent higher. Compared to the previous-year period, personnel expenses rose by 3.5 percent to CHF 40.1 million due to higher salaries and a staff buildup. In combination with other operating expenses, which were up CHF 6.3 million (41.4 percent) compared to the previous-year period mainly because of ongoing costs and provisions made for the excavation of burdened soil and changes in regulatory requirements that came into effect at the beginning of the year as well as higher disposal costs, EBITDA grew underproportionately compared to net sales and was CHF 47.1 million, 22.6 percent higher than in the previous-year period, with a lower EBITDA margin of 35.2 percent (previous-year period: 37.7 percent). With depreciation and amortization of CHF 9.5 million, EBIT was CHF 37.5 million, 34.9 percent above the previous-year period's figure, with an EBIT margin of 28.0 percent (previous-year period: 27.3 percent). After the financial result and the lower income taxes due to the newly applicable reduced income tax rate and the extraordinary income due to a one-time revaluation of deferred tax liabilities, net income was CHF 38.9 million (previous-year period: CHF 23.9 million), 62.8 percent higher than in the previous-year period, with a net income margin of 29.1 percent (previous-year period: 23.5 percent).

Cash flow from operating activities rose from CHF 12.0 million in the previous-year period to CHF 49.4 million, mainly due to the higher net income and higher customer payments. Investments increased strongly in the first business half-year to CHF 93.5 million. Cash outflows from investments in property, plant and equipment and intangible assets were CHF 52.2 million, a strong 122.5 percent increase over the previous-year period. At the end of the reporting period, cash and cash equivalents and current financial assets were CHF 234.0 million. The equity ratio declined from 83.3 percent to 76.5 percent, mainly due to accruals from plants under construction and the new financial liabilities of CHF 30 million.

Outlook

Expansion and buildup of new manufacturing capacities and infrastructure for ongoing growth continues. Over the coming seven years, DOTTIKON ES will invest around CHF 700 million in new chemical production and drying plants for APIs as well as in infrastructure and will create over 200 new jobs in Research and Development, Production, Quality Management, as well as Technology and Engineering at its development and manufacturing site in Dottikon (Aargau, Switzerland). This will almost double the available high-quality production capacity at the site and allows to capture disproportionally high market growth in the custom synthesis of small molecule APIs. The construction of a new API drying plant as well as the new chemical multipurpose production plant are progressing as planned, and the plants will become operational in 2024 and 2025, respectively. Building construction is already well advanced and the first interior installations are taking shape. Once the company's own photovoltaic plant on the new raw materials warehouse currently under construction becomes operational, DOTTIKON ES will generate up to 5 percent of the annual electricity consumption on-site. With the planned commissioning of its own back-up electricity supply plant in 2024/25, DOTTIKON ES will become able to cover its full electricity consumption on-site in compliance with the Clean Air Ordinance over longer time periods in the event of emergency.
DOTTIKON ES' one-site strategy – strategic partner and specialist for hazardous reactions – is reaffirmed: By using enabling technology, we develop and manufacture high-quality, demanding chemical products safely and efficiently. We cultivate an integrated partnership with our customers. By applying our full development and manufacturing capabilities, we support our customers in the successful execution of their strategy. In doing so, we create more value for our customers than our competitors. We continue to focus on safety, reliability, high flexibility, and speed, and are thus strengthening our position as strategic development and manufacturing partner.

For the ongoing full business year 2022/23, we expect net sales above the previous year's figure.

Dottikon, November 21, 2022

Dr. Markus Blocher
Chairman of the Board of Directors

Group Financial Statements DOTTIKON ES Group

Consolidated Income Statements

April–September
CHF thousand and %
(unaudited, condensed)

	2021	%	2022	%
Net sales	**101'844**	**100.0**	**133'785**	**100.0**
Changes in semi-finished and finished goods	13'029		24'243	
Other operating income	4'091		4'438	
Material expenses	–26'732		–53'919	
Personnel expenses	–38'726		–40'077	
Other operating expenses	–15'134		–21'407	
Operating result before depreciation and amortization (EBITDA)	**38'372**	**37.7**	**47'063**	**35.2**
Depreciation and amortization	–10'564		–9'541	
Operating result (EBIT)	**27'808**	**27.3**	**37'522**	**28.0**
Financial income	1'051		963	
Financial expenses	–1'019		–1'373	
Financial result	**32**		**–410**	
Result from associated companies	**0**		**0**	
Net income before taxes	**27'840**	**27.3**	**37'112**	**27.7**
Income taxes	–3'925		1'817	
Net income	**23'915**	**23.5**	**38'929**	**29.1**
Basic/diluted earnings per share in CHF	**1.73**		**2.82**	
Weighted average number of shares	**13'808'747**		**13'811'704**	

Consolidated Balance Sheets

CHF thousand and %
(unaudited, condensed)

	31.03.2022	%	30.09.2022	%
Cash and cash equivalents	141'954		174'044	
Current financial assets	64'884		60'000	
Trade receivables	69'305		54'696	
Other receivables	5'309		6'090	
Inventories	142'929		172'056	
Prepaid expenses and accrued income	2'067		2'905	
Current assets	**426'448**	**49.7**	**469'791**	**47.7**
Property, plant and equipment	382'905		466'759	
Intangible assets	214		220	
Investments in associated companies	1'668		1'668	
Assets from employer contribution reserve	47'176		47'176	
Non-current assets	**431'963**	**50.3**	**515'823**	**52.3**
Assets	**858'411**	**100.0**	**985'614**	**100.0**
Trade payables	11'122		17'165	
Income tax liabilities	1'460		4'764	
Other current liabilities	41'830		54'397	
Current provisions	8'718		6'278	
Accrued expenses and deferred income	43'196		84'757	
Current liabilities	**106'326**	**12.4**	**167'361**	**17.0**
Non-current financial liabilities	0		30'000	
Non-current provisions	2'589		5'090	
Deferred tax liabilities	34'522		29'257	
Non-current liabilities	**37'111**	**4.3**	**64'347**	**6.5**
Liabilities	**143'437**	**16.7**	**231'708**	**23.5**
Share capital	140		140	
Share premium	263'632		264'418	
Retained earnings	455'033		493'142	
Own shares	–3'831		–3'794	
Shareholders' equity	**714'974**	**83.3**	**753'906**	**76.5**
Shareholders' equity and liabilities	**858'411**	**100.0**	**985'614**	**100.0**

Consolidated Cash Flow Statements

April–September
CHF thousand
(unaudited, condensed)

	2021	2022
Net income	23'915	38'929
Income taxes	3'925	–1'817
Financial result	–32	410
Depreciation of property, plant and equipment	10'460	9'445
Amortization of intangible assets	104	96
Result from associated companies	0	0
Other non-cash income and expenses	–40	466
Interest received	0	8
Interest paid	–137	–161
Income taxes paid	–3	–21
Changes in		
Trade receivables	–5'679	14'621
Other receivables as well as prepaid expenses and accrued income	–2'953	–1'603
Inventories	–24'793	–29'127
Trade payables	3'155	517
Other current liabilities as well as accrued expenses and deferred income	4'049	17'582
Provisions	–1	61
Cash flow from operating activities	**11'970**	**49'406**
Outflows of		
Current financial assets	–35'187	–40'000
Property, plant and equipment	–23'422	–52'087
Intangible assets	–26	–75
Inflows of		
Current financial assets	60'591	44'884
Property, plant and equipment	0	1
Intangible assets	0	0
Cash flow from investing activities	**1'956**	**–47'277**
Dividends paid	0	0
Purchase of own shares	0	0
Disposal of own shares	0	0
Increase in financial liabilites	0	30'000
Interest paid on financial liabilities	0	–76
Cash flow from financing activities	**0**	**29'924**
Currency translation effect on cash and cash equivalents	–166	37
Net change in cash and cash equivalents	**13'760**	**32'090**
Cash and cash equivalents at the beginning of the reporting period	185'157	141'954
Cash and cash equivalents at the end of the reporting period	**198'917**	**174'044**

Consolidated Statements of Changes in Equity

CHF thousand
(unaudited, condensed)

	Share capital	Share premium	Changes in fair value of foreign exchange forwards	Other retained earnings	Own shares	Shareholders' equity
Balance 01.04.2021	**140**	**262'959**	**420**	**396'201**	**–3'907**	**655'813**
Net income				**23'915**		**23'915**
Changes of foreign exchange forwards			–324			–324
Income taxes on items recognized directly in equity			60			60
Dividends paid						0
Changes in own shares		673			76	749
Balance 30.09.2021	**140**	**263'632**	**156**	**420'116**	**–3'831**	**680'213**
Balance 01.04.2022	**140**	**263'632**	**–457**	**455'490**	**–3'831**	**714'974**
Net income				**38'929**		**38'929**
Changes of foreign exchange forwards			–943			–943
Income taxes on items recognized directly in equity			123			123
Dividends paid						0
Changes in own shares		786			37	823
Balance 30.09.2022	**140**	**264'418**	**–1'277**	**494'419**	**–3'794**	**753'906**

Notes to the Group Financial Statements of DOTTIKON ES Group (condensed)

1 SEGMENT REPORTING

DOTTIKON ES Group manufactures high-quality performance chemicals, intermediates, and exclusive active pharmaceutical ingredients (APIs) for the world's leading chemical, biotech, and pharmaceutical industry. DOTTIKON ES Group is specialized in hazardous reactions and positions itself as strategic development and manufacturing partner and performance leader. DOTTIKON ES Group uses, maintains, and continuously expands its versatile technology and equipment portfolio 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.

According to Swiss GAAP FER 31 "Complementary Recommendation for Listed Public Companies", the reportable operating segments are determined using the segment reporting to the top management level for corporate management. DOTTIKON ES Group's top management level is the Board of Directors. In addition to its statutory tasks, the Board of Directors is responsible for the strategic focus and management of the Group. Strategic and important operational decisions of DOTTIKON ES Group are taken by the Board of Directors.

DOTTIKON ES Group builds on one single production site with the performance leadership strategy as strategic partner and specialist for hazardous reactions. DOTTIKON ES Group mainly executes strongly heterogeneous projects with a focus on the exclusive synthesis of fine chemicals. Therefore, a differentiation in several operating segments is not informative.

The financial reporting to the Board of Directors is prepared in a single segment. DOTTIKON ES Group allocates resources and assesses their performance on entity level.

Therefore, the required information according to Swiss GAAP FER 31.8 "Segment Reporting" is shown in the consolidated interim financial statements.

2 INCOME TAXES

On May 15, 2022, the popular vote in the canton of Aargau approved the proposal for a staggered income tax reduction. The new tax law, which came into effect retrospectively as of January 1, 2022, resulted in the revaluation of deferred tax liabilities. With an income contribution of CHF 6.5 million, this represented the main impact on income taxes. Although net income before taxes was 33 percent higher compared to the previous-year period, the one-time extraordinary effect of this revaluation led to a total tax income of CHF 1.8 million.

3 SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

The consolidated interim financial statements were approved for issue by the Board of Directors on November 21, 2022.

No significant events have occurred between September 30, 2022, and November 21, 2022, that would require an adjustment of the Group's carrying amounts of assets and liabilities or that would need to be disclosed under this heading.

Investor Relations

Issue Annual Report 2022/23
May 31, 2023

Annual General Meeting for the Business Year 2022/23
July 7, 2023

Issue Half-Year Report 2023/24
November 28, 2023

DOTTIKON ES HOLDING AG is listed on 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, 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 sustainably. 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 and management, clear and transparent data and process documentation, and close customer communication.

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