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DOTTIKON ES with Slight Sales Increase and Smaller Loss

Dottikon, Switzerland, May 29, 2012 – SIX-listed DOTTIKON ES HOLDING AG closed its business year 2011/12 on March 31, 2012.

- Net sales were CHF 81.0 million, showing a slight increase of 1.1%, compared to CHF 80.1 million in the previous year. At the same time, the inventory of semi-finished and finished goods also increased by CHF 4.8 million compared to the previous year. Both factors were due to operating more successfully in a slightly improved market environment
- EBITDA margin increased year-on-year to 14.4 compared to 6.1%, as a result of the increase in sales as well as in semi-finished and finished goods with an improved product mix, and the ongoing rigorous cost discipline. At the same time, expenses for the future-oriented extension of research and development were raised from 10 to 12% of net sales
- At CHF 0.8 million, there was a considerably smaller net loss in comparison with CHF 7.1 million in the previous period
- At CHF 57.6 million, DOTTIKON ES continues to show a high stock in cash and cash equivalents as well as fixed deposits, and the equity ratio increased again slightly to a high 86.9%. This was in spite of the lower inflow of trade receivables, based on the weak course of business in the previous period and increasing inventories due to the improved course of business in the business year 2011/12
- The Board of Directors of DOTTIKON ES HOLDING AG will propose a dividend of CHF 4.00 per registered share entitled to dividends to the Annual General Meeting on July 6, 2012, and that the remaining retained earnings be carried forward to new account
- Furthermore, as already published in January 2012, the Board of Directors of DOTTIKON ES HOLDING AG will propose that Dr. Thomas Früh as well as the two present members of the Board of Directors, Dr. Markus Blocher and Dr. Alfred Scheidegger, be elected to the Board of Directors. The early initiated orderly transition of the members of the Board of Directors, Heinz Boller and Dr. h.c. Peter Grogg, who will no longer put themselves forward for reelection for reasons of age, will thereby be completed

Global economy between debt reduction, growth through consumption, and inflation

While the USA has made a weak, but surprisingly solid recovery, the austerity policy to overcome the debt crisis has made its mark in Europe and, indirectly, also partly in China.
There is increasing recognition that excessive austerity leads to a downward spiral into tightening recession. The already risky high exposure of European banks to Euro government bonds has become even more pronounced due to long-term refinancing operations by the European Central Bank. The time bomb can only be defused through disciplined debt reduction, calling upon a balanced combination of spending restraints, increased tax revenue, and liberalization with far-reaching structural reforms, particularly in the employment market. The future will show whether there is a readiness to tackle this huge challenge and whether this can be achieved.

China's ongoing record growth while the industrialized countries were experiencing a decline has led to decreasing exports as a logical consequence. China's abiding dependence on investments as a drive for growth is causing concern. It is generally expected that a balancing between investments and consumption will be inevitable. The first signs of a decline in investment were already apparent. Prices for Chinese real estate have been constantly decreasing for more than a year.
The recovery of the US economy is proving to be astonishingly sustainable and robust, although at a low level. Orders from abroad have remained on a course of growth. The unemployment rate has reduced from around 10 to 8 percent since the end of 2009. The continuing low interest rates and considerably reduced natural gas prices, which should lower energy costs in the USA in the long-term future, instill confidence. On the other hand, the huge increase in the amount of money by the central bank over the last few years, if this is not siphoned off in time, holds a risk of inflation with improving economic prospects.
The challenges and associated uncertainties remain considerable, despite a few rays of hope on the horizon.

Pharma under pressure – consolidation, diversification, and focus
Losses in sales due to the expiry of several patents, a lack of innovations, and price regulations by governments continue to characterize the pharmaceutical market and the financial statements of leading pharmaceutical companies. The result is stagnating to starkly declining sales and profits. In the search for replacement sales for drugs affected by expired patents, ever more research-oriented pharmaceutical companies are plunging into the business with branded generics, particularly in the fast-growing emerging markets. The general price pressure on drugs continues, as well as the promotion of generics to reduce health care costs. Corresponding regulations are also being increasingly introduced in the emerging markets. This price pressure is leading to the consolidation of the generics industry. Loss of quality, supply shortages, and fraud cases have resulted – due to price pressure in recent years – from moving production to low-cost countries, primarily for generics, in addition to accelerated parallel imports, particularly for patent-protected drugs. Sometimes this has led to devastating damage to health and even death of patients. The number of FDA warning letters with suspension of sales or prohibition for API or drug-product manufacturing companies, rose significantly. Several, including global pharmaceutical companies, have been affected by temporary closure of production operations. This resulted in supply shortages in hospitals. These circumstances have led to an increase in awareness of the importance and value of reliable and interruption-free supply chains.
In this environment, some pharmaceutical companies are diversifying into animal health, medical devices or even consumer goods, others are focusing on specific indications, as well as on approval and sales of in-licensed or acquired new drugs. Research and development, frequently less successful in the past few years by comparison with its scale, has been sharply reduced and will be decreased further. Production sites are sold or shut down. Chemical process development and production is already being outsourced more frequently, and will be in the future. For early clinical phases, this is often moved to Asia to enable material manufacturing for initial clinical tests without spending much time and effort on chemical process development. Only after the successful completion of these early clinical phases the chemical process development is picked up in depth, but intensified sharply, to meet the requirement of rapid market introduction.

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Review

DOTTIKON ES' decision made in the previous year not to size down peripheral areas, particularly research and development and quality management, and even to extend it with the addition of a routefinding group, proved increasingly to be correct in the reporting period. In order to compensate the clear-cut of projects in the late development stage two years ago, DOTTIKON ES acquired new projects via operating more successfully in a slightly improved market environment. As DOTTIKON ES predicted, there has been a considerable increase in the number of requests for reliable process development and production that maintains the highest criteria for eligibility with regard to safety, quality, scalability, and timelines, for projects with underdeveloped chemical processes. Demand for the stable development of chemical processes is again increasing, since customers had delayed route selection and process development in the last two years and shifted them to later clinical phases. Some of these projects that are currently still small in terms of volume but extremely development-intensive were successfully acquired in the reporting period and will now be developed stepwise to production scale for customers. This will be followed by growing demand for large-volume capacity for multi-ton API production under the highest safety and pharmaceutical quality standards, with the implementation and proceeding of such projects along the clinical phases. Fortunately for DOTTIKON ES, in the reporting period, there was also an increase in projects indicated with high-quality, sophisticated exclusive synthesis and production under time pressure, outside the pharmaceutical market.

The increase in incoming orders allowed DOTTIKON ES to terminate short hours in all plant sections as of end of September 2011 and led to a slight increase in net sales to CHF 81.0 million. The share of pharmaceutical products went up from 80 to 83 percent. The inventory of semi-finished and finished products increased by around CHF 4.8 million due to incoming orders in the reporting period, compared to a decrease of CHF 10.3 million in the previous year. As a consequence, material expenses increased sharply. By contrast, other operating income fell by around CHF 5.6 million, mainly due to claims included in the previous year for the delayed commissioning of new apparatus groups in the business year 2009/10, and lower capitalized own production in the business year 2011/12. Together with the weak course of business for the previous year 2010/11, and the associated lower cash flow from trade receivables, the result was a reduced operating cash flow of CHF 3.8 million compared to CHF 30.4 million year-on-year. Thanks to the increase in sales as well as in semi-finished and finished goods with an improved product mix, and the ongoing strict cost discipline, next to others the structural adaptation of personnel costs, the EBITDA margin increased year-on-year to 14.4 percent compared to 6.1 percent. Due to relatively low new investments of around CHF 4.1 million, depreciation and amortization decreased slightly. The result was a considerably smaller net loss of CHF 0.8 million compared to the previous period at CHF 7.1 million.

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Key Figures DOTTIKON ES Group

CHF million	FY 2010/11	FY 2011/12	Changes
Net sales	**80.1**	**81.0**	+1.1%
Changes in semi-finished and finished goods	–10.3	4.8	
Other operating income	8.0	2.4	
Material expenses	–17.5	–24.7	
Personnel expenses	–41.5	–37.6	
Other operating expenses	–13.9	–14.2	
EBITDA	**4.9**	**11.7**	+139.3%
EBITDA margin (in % of net sales)	*6.1%*	*14.4%*	
Depreciation and amortization	–14.7	–14.3	
EBIT*	**–9.8**	**–2.6**	+73.4%
EBIT margin (in % of net sales)	*–12.2%*	*–3.2%*	
Financial result	0.1	0.6	
Income taxes	2.6	1.2	
Net income (net loss)*	**–7.1**	**–0.8**	+89.0%
Net income (net loss) margin (in % of net sales)	*–8.8%*	*–1.0%*	
Basic earnings (loss) per share (in CHF)*	**–5.70**	**–0.63**	+88.9%
Proposed dividend per share (in CHF)	–	4.00	
Cash flow from operating activities	**30.4**	**3.8**	–87.4%
Capital expenditure	–13.3	–4.6	
Free cash flow	**17.1**	**–0.8**	–104.4%

* Reporting year 2011/12: relative change to absolute EBIT or net loss of the previous year, respectively

FY 2010/11: business year from April 1, 2010, to March 31, 2011
FY 2011/12: business year from April 1, 2011, to March 31, 2012

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Outlook

The demand for high-quality, sophisticated exclusive synthesis under time pressure is set to increase in the future, even though the current environment is still characterized by major uncertainties. Demand for capacity for the safe and stable development of chemical processes involving hazardous reactions and high-volume production of APIs employing these processes – in compliance with the highest standards of safety and pharmaceutical quality – will inevitably grow over the coming years, not least because of the demand for sustainable and environmentally compatible production conditions.

In the business year 2012/13, DOTTIKON ES is continuing the strategy of performance leadership as specialist for hazardous reactions, building on one single production site and therefore flexibility, speed, and reliability. This is part of the differentiated performance leadership strategy, where the number of internal interfaces is reduced in order to shorten decision and communication pathways, resulting in fast and efficient project development and comprehensive and transparent communication with customers. By means of this strategy, DOTTIKON ES adds value for customers over the entire product life cycle by using hazardous reactions. DOTTIKON ES utilizes the environment of the safety culture created over the last 100 years to innovatively use hazardous reactions to question, tighten or shorten conventional chemical synthesis routes.

In this current business year 2012/13, DOTTIKON ES expects a further increase in new projects and net sales and a return back to profitability.

DOTTIKON ES, with its production site in Dottikon (Aargau, Switzerland), is specialized in hazardous chemical reactions. Its safety culture created over the last 100 years is utilized to innovatively use hazardous reactions, low-temperature and high-pressure chemistry, as well as continuous processing, to question, tighten or shorten conventional chemical synthesis routes, improve yields, selectivity, and purity, as well as to reduce waste.

DOTTIKON ES employs its versatile technology and equipment portfolio to design, develop, and continuously improve chemical processes, scale up from kilograms to multi-tons, as well as to manufacture high-quality intermediates and exclusive active pharmaceutical ingredients (APIs) for the world's leading pharmaceutical and chemical companies. The one-site strategy of DOTTIKON ES allows short decision and communication pathways. This ensures quick and efficient project development as well as clear and transparent communication with the customers.

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