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## DOTTIKON ES – Higher Sales and Net Income

Dottikon, Switzerland, May 29, 2015 – SIX-listed DOTTIKON ES HOLDING AG closed its business year 2014/15 on March 31, 2015.

- Net sales of DOTTIKON ES Group once again increased by 7% to CHF 96.5 million in comparison with the previous year
- After four years, DOTTIKON ES Group again reports a net income of CHF 1.3 million with a net income margin of 1.4% (previous year: –2.9%)
- The operating cash flow was CHF 11.4 million, an increase of approximately 36%
- Cash and cash equivalents amount to CHF 29.1 million at the end of the reporting year. The equity ratio remains at 86.4%
- DOTTIKON ES plans a significant increase in investments in the coming three years in order to achieve the expected net sales growth in the medium term
- Therefore, the Board of Directors of DOTTIKON ES HOLDING AG will propose to this year's Annual General Meeting that no dividend be paid and that the entire retained earnings be carried forward to new account
- All members of the Board of Directors and of the remuneration committee will stand for reelection: Dr. Markus Blocher as Chairman, Dr. Thomas Früh as Deputy Chairman, and Dr. Alfred Scheidegger as member
- To emphasize the importance of the technical vocational education, DOTTIKON ES dedicates this year's Condensed Annual Report to its production employees

**Assessment of situation**
Despite a moderate recovery of the global economy, uncertainties persist. Economic, fiscal and military conflicts have increased around the world, resulting in a surge of migration and in significant changes in cultural values. In addition, the long-term impact of the expansive fiscal policy and its approaching end remain largely unforeseeable. With the rise of regionalization, values such as trust, reliability, and sustainability – along with cultural and regional proximity – become increasingly important.
The demographic trend ensures long-term volume growth in the pharmaceutical market. Aging populations based on rising life expectancies, population growth, and an increase in wealth result in an increase in chronic illnesses and the respective demand for effective treatments. Governments around the globe strive to contain the inevitable increase in health costs. In their efforts, they apply measures to boost the market penetration of generics, followed by price cuts through benchmarking and tendering procedures, as well as the demand for efficiency improvements and evidence of effectiveness. Government-driven competitive and price pressures have resulted in intensified cost and innovation pressure among pharmaceutical companies and have changed the existing demand and supply structures. The effect can be seen when the averages of expected annual growth rates are compared to the clearly lower expected growth rates for the coming five years in Europe, Japan, and – albeit at a higher level in a global comparison – China. The United States are the exception to the rule. So far, apart from the governmental Medicare and Medicaid programs, they have not regulated the drug prices. As a result, drug expenditures in the United States have risen by 13 percent in 2014. Half of the increase was attributable to

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new, innovative and high-price drugs, while the other half was due to massive price hikes for existing branded drugs. These price excesses have triggered the reaction of US politicians and payers, and some already call for the implementation of price regulation similar to Japanese or European models. Despite this, over the coming five years, an average annual growth rate of 6 to 8 percent is expected in the United States. With a market share of more than 40 percent, the United States with their high prices remain the most important pharmaceuticals market for innovative drugs. In 2014, the FDA approved 41 new drugs in the United States – a figure that has not been reached since the mid-90s. More than three out of five new drugs were first filed and approved in the United States. Over the coming five years, around 200 new drugs are expected to receive market approval.

Cost and innovation pressure are the main drivers of the current financing and consolidation wave in the pharmaceutical industry. The disproportionate growth in the generics segment has attracted a vast number of new local market participants and has intensified the ongoing price battle. The market underwent further fragmentation despite very lively M&A activity. The large pharmaceutical companies focus on special indication areas and acquire market shares and innovation. In 2014, biotechs received the largest financing volume in history. Since 2001, biotech IPOs have reached new highs in terms of number and volumes, both in the United States and in Europe. Pharmaceutical companies purchase biotechs with promising fast-track development projects or new technology platforms in order to make up for their low research productivity. With such transactions, they create added value by applying their market approval, commercialization and distribution competence to the value realization of the purchased biotech innovations. In order to secure fast market access at low production costs and with the required high quality levels, and thus to justify their expensive acquisitions, pharmaceutical companies struggle with the challenge of securing chemical synthesis routes and subsequent process development in short times, as both areas had been neglected in the early phases. The timely availability of active pharmaceutical ingredients (APIs) in sufficient quantity and quality becomes a critical success factor. Given that many pharmaceutical companies have drastically reduced their own chemical development capacity and that many of them or their suppliers face difficulties with regulatory authorities for non-compliance with cGMP, such tasks are increasingly outsourced to reliable and trustworthy strategic development and manufacturing partners that are able to deliver the required quality.

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**Review**

Net sales of DOTTIKON ES once again increased by 7 percent to CHF 96.5 million in comparison with the previous year. The growth was more broad-based, with the top 3 products making up around 18 percent of net sales, compared to approximately 33 percent a year earlier. The increase was achieved through an expansion of the existing business and a broadening of the customer, project, and product base through new project acquisitions. The broadening of the base is also reflected in higher expenses for research and development, which increased by 11 percent compared to the previous year to around CHF 11.9 million. These expenses made up more than 12 percent of net sales in the period under review. The improved product and services mix with higher added value as well as a slight reduction in inventory compared to the increase reported a year earlier resulted in a 24 percent decrease in material expenses. Compared to the previous year, personnel expenses were up by 5 percent due to the fact that the workforce increased by 4 percent, with a greater ratio of high-skill employees. Other operating expenses increased by CHF 0.6 million compared to the previous year mainly due to public fees related to a conversion from debt into equity at a subsidiary in an effort to maintain the holding privilege. EBITDA increased by around CHF 5.6 million compared to the previous year to 15.9 million, with an EBITDA margin of 16.5 percent (previous year: 11.5 percent). After slightly higher depreciation, DOTTIKON ES again reports an operating income of CHF 1.4 million and net income of CHF 1.3 million after four years. The EBIT margin rose to 1.5 percent (previous year: –4.3 percent). The net income margin was 1.4 percent (previous year: –2.9 percent).

At 11.4 million, the operating cash flow was CHF 3.0 million higher than in the year-earlier period, primarily due to the net income compared to a net loss a year before. Together with the CHF 4.5 million increase in investments and a reduction of share capital of CHF 6.1 million in the reporting period, cash and cash equivalents amounted to CHF 29.1 million at the end of the business year, down around CHF 4.9 million compared to a year before. The equity ratio remains at a solid 86.4 percent.

**Outlook**

In the current pharmaceutical environment described above, DOTTIKON ES remains well positioned. The corporate strategy – strategic partner and specialist for hazardous reactions – therefore remains: 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.

The pharmaceutical market is and remains the main market in which growth in net sales – the main driver for higher profitability – will be achieved. Amid this effort, capacity utilization of the existing infrastructure will be increased. In order to achieve the expected net sales growth in the medium term, the API drying and multipurpose production capabilities will be increased and the construction of a new facility for laboratories and offices will be prepared. As a result, investments in the coming three years will be clearly higher than in the business year 2014/15.

In order to ensure long-term growth, the independent Performance Chemicals project team will develop new own innovative products to satisfy currently unmet market needs.

For the full business year 2015/16, DOTTIKON ES expects to extend its project pipeline and anticipates a further increase in net sales and net income compared to the previous year.

**DOTTIKON ES' commitment to a responsible educational system**

The majority of the employees portrayed in this year's Condensed Annual Report has received a sound vocational education as chemical or laboratory technicians or is currently undergoing this apprenticeship. Over the course of the years, these employees have further developed their skills, gained experience and assumed more responsibilities or leadership roles. Patients around the globe would have no access to the client's innovative or life-saving high-quality medication without the employees of DOTTIKON ES' daily dedicated commitment and high willingness to perform, combined with in-depth, valuable know-how, and long-standing practical experience in chemical process development and the production of active pharmaceutical ingredients.

DOTTIKON ES is committed to: i) a practical vocational education with classroom teaching or a scientific education at a university or the Federal Institute of Technology (ETH) in combination with practical training; (ii) knowledge enrichment and the gaining of new experience by fundamental research at a university or the ETH without justification and verification of immediate commercial use; and (iii) commercial, market-oriented, and innovative research and development by enterprises themselves. DOTTIKON ES takes this responsibility by corresponding actions in its field.

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## Key Figures DOTTIKON ES Group

| CHF million | FY 2013/14 | FY 2014/15 | Changes |
|---|---|---|---|
| **Net sales** | **89.9** | **96.5** | +7.3% |
| Changes in semi-finished and finished goods | 3.3 | –1.1 | |
| Other operating income | 2.9 | 2.9 | |
| Material expenses | –26.1 | –19.8 | |
| Personnel expenses | –46.0 | –48.3 | |
| Other operating expenses | –13.7 | –14.3 | |
| **EBITDA** | **10.3** | **15.9** | +54.3% |
| *EBITDA margin (in % of net sales)* | *11.5%* | *16.5%* | |
| Depreciation and amortization | –14.1 | –14.5 | |
| **EBIT**[1] | **–3.8** | **1.4** | +137.2% |
| *EBIT margin (in % of net sales)* | *–4.3%* | *1.5%* | |
| Financial result[2] | 0.0 | –0.1 | |
| Income taxes | 1.2 | 0.0 | |
| **Net income (net loss)**[1] | **–2.6** | **1.3** | +151.0% |
| *Net income (net loss) margin (in % of net sales)* | *–2.9%* | *1.4%* | |
| **Basic earnings (loss) per share (in CHF)**[1] | **–2.09** | **1.07** | +151.2% |
| Proposed dividend per share (in CHF)[3] | – | – | |
| **Cash flow from operating activities** | **8.4** | **11.4** | +36.2% |
| Capital expenditure | –5.7 | –10.1 | |
| **Free cash flow** | **2.7** | **1.3** | |

[1] Change to absolute previous-year amount
[2] Including result from associated companies
[3] Instead of a dividend, a reduction of share capital by reduction of nominal value per registered share by CHF 4.90 to CHF 0.10 was approved by the previous year's Annual General Meeting on July 4, 2014, which was realized in the reporting year 2014/15

FY 2013/14: business year from April 1, 2013, to March 31, 2014
FY 2014/15: business year from April 1, 2014, to March 31, 2015

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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 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
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