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DOTTIKON ES – Strong Organic Growth in Sales and Profitability

Dottikon, Switzerland, November 25, 2016 – 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 first business half-year 2016/17 on September 30, 2016.
In the first half of the current business year, net sales were 56 percent higher than in the previous year, with pharma being the main growth driver of the purely organic growth. The strong rise in net sales in combination with a smaller inventory increase in semi-finished and finished goods as well as higher personnel expenses and depreciation compared to the previous year resulted in a substantially higher operating profit of CHF 11.5 million compared to CHF 1.1 million in the rather weak previous-year period. Overall, net income rose to around CHF 9.5 million (previous year: CHF 1.0 million).
For the full business year 2016/17, DOTTIKON ES expects, next to extending its existing business, a further broadening of its client, project, and product base. As a result, DOTTIKON ES continues to anticipate a further increase in net sales and net income in the full business year 2016/17 compared to the previous year.

Low interest rates force market participants to buy absolute returns by taking disproportionately high risks. If economic risks materialize, they would entail massive losses in net asset values. The related uncertainties could prompt substantial financial market turmoil, which would place heavy demands on the global monetary policy given the fact that fiscal measures are nearly exhausted. In the long run, geopolitical risks remain a decisive factor for the development of the global economy: Russia pursues an aggressive foreign policy, China expands its global geopolitical and economic influence, the United States' internal and foreign policies are weak, and the ancient conflicts in the Middle East with their global reach steadily flare up again. In addition, the global IT interconnectivity is vulnerable to cyber attacks. Amid increasing uncertainties and ongoing regionalization, values such as trust, reliability, and sustainability – along with cultural and geographical proximity – continue to gain importance.
The demographic trend ensures further long-term volume growth in the pharmaceutical market. Government measures to lower the health care costs, promote generic drugs, and accelerate the market approval process for innovative drugs, in combination with low-priced capital, are key innovation drivers. The United States is the largest drug sales market and plays, not least thanks to nearly unregulated drug prices, an important role in spurring the outlook for quick and high profits with innovative drugs. Threats to this promising outlook are strict price regulation in the United States, swift interest rate hikes or adverse events associated with quick market approvals and inadequate drug safety tests.
Despite economic and geopolitical risks, the increased molecular complexity, higher regulatory requirements, changed mechanics in the supply chain of active pharmaceutical ingredients production, and a cutback in high-quality process development and manufacturing capacities create promising opportunities for high-quality, technologically advanced exclusive synthesis providers that are specialized in the process development and manufacturing of active pharmaceutical ingredients.

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Reliable, trustworthy, and established strategic development and manufacturing partners that are able to deliver the required quality and to provide the full range of services from chemical synthesis routefinding, the development of chemical processes and analytical methods to multi-step API production, including validation and stability studies, remain in demand. On the one hand, the partners should possess cutting-edge development and production infrastructure, an impeccable quality track record, and a broad technology platform, while on the other hand having profound experience in the development of chemical processes and the production of APIs. In addition, pharmaceutical companies are interested in maintaining a very limited number of interfaces and in cooperating closely with a select group of strategic partners throughout all stages from development to market introduction and supply. This trend is set to accentuate further in the coming years.

At the end of the first half of the business year 2016/17, net sales stood at CHF 67.6 million, which represents an increase of more than 56 percent compared to the previous year. Growth was mainly driven by pharma. Existing projects were further developed and made a substantial and broad-based contribution to the achieved purely organic growth. In contrast to net sales, the production output – net sales plus inventory changes in semi-finished and finished goods – only rose by 30 percent compared to the year-earlier period due to a less accentuated inventory increase in semi-finished and finished goods. Due to this lower inventory growth, material expenses in relation to net sales were lower than in the previous year. Personnel expenses were higher than a year earlier due to the creation of more than 50 new jobs. The growth also lifted the other operating expenses above the year-earlier figure. At CHF 20.4 million, operating profit before depreciation and amortization was clearly higher than a year earlier (previous year: CHF 8.1 million). Depreciation rose by CHF 1.8 million compared to the previous year mainly due to the fundamental major investments and the related valuation adjustment of older infrastructure with a view to the future, further intensified investment activity in new cGMP multipurpose production and development capacities. In the first half of the business year 2016/17, net income rose to CHF 9.5 million (previous year: CHF 1.0 million).
Given that the cash-relevant reduction in trade receivables was CHF 29.3 million higher due to a strong increase in net sales in the second half of the last business year, while the increase in inventory was CHF 7.0 million lower and liabilities rose by CHF 5.2 million compared to the previous year, the clearly higher net income and higher depreciation resulted in a CHF 52.8 million increase in operating cash flow. Combined with investments of CHF 12.5 million – twice as high as in the previous year – cash and cash equivalents stood at CHF 65.2 million at the end of the period under review. The higher balance sheet total based on intensified investment activities and the future sales growth resulted in a slightly lower equity ratio of 83 percent (previous year: 86 percent).

Key Figures DOTTIKON ES Group

CHF million	FY 2015/16	HY 2015/16	HY 2016/17
Net sales	**121.4**	**43.2**	**67.6**
EBITDA	**31.8**	**8.1**	**20.4**
EBITDA margin (in % of net sales)	*26.2%*	*18.8%*	*30.1%*
EBIT	**16.6**	**1.1**	**11.5**
EBIT margin (in % of net sales)	*13.7%*	*2.6%*	*17.0%*
Net income	**14.3**	**1.0**	**9.5**
Net income margin (in % of net sales)	*11.8%*	*2.3%*	*14.1%*
Cash flow from operating activities	**5.9**	**3.3**	**56.1**
Capital expenditure	–13.4	–6.4	–12.5
Free cash flow	**–7.5**	**–3.1**	**43.6**

FY: business year from April 1, 2015, to March 31, 2016
HY: business half-year from April 1 to September 30

The Annual Report 2016/17, covering the period from April 1, 2016, to March 31, 2017, will be presented on May 30, 2017.

DOTTIKON ES' 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 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. DOTTIKON ES continues to focus on safety, reliability, high flexibility, and speed and thereby strengthens its position as strategic development and manufacturing partner and performance leader.
The pharmaceutical market is and remains the main market in which the growth in net sales – the main driver for ongoing profitability – will be achieved. Amid this effort, capacity utilization of existing infrastructure will be increased. In order to achieve the expected net sales growth in the medium term, DOTTIKON ES is increasing its multipurpose production and API drying capacities and is realizing the construction of a new facility for laboratories and offices. The accumulated investment volume over the coming three years will therefore increase substantially.
For the full business year 2016/17, DOTTIKON ES expects, next to extending its existing business, a further broadening of its client, project, and product base. As a result, DOTTIKON ES continues to anticipate a further increase in net sales and net income in the full business year 2016/17 compared to the previous year.

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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