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DOTTIKON ES – Strong Growth and Significant Net Income Increase

Dottikon, Switzerland, November 29, 2019 – 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 2019/20 on September 30, 2019.

For the first business half-year 2019/20,

- Net sales were CHF 77.9 million, 38 percent above the previous-year period
- EBITDA stood at CHF 27.9 million (previous-year period: CHF 9.8 million), EBITDA margin was 35.8 percent (previous-year period: 17.4 percent)
- EBIT was CHF 18.7 million (previous-year period: CHF 2.4 million), EBIT margin was 24.0 percent (previous-year period: 4.3 percent)
- Net income was CHF 15.4 million (previous-year period: CHF 2.0 million), net income margin was 19.8 percent (previous-year period: 3.5 percent)

Net sales in the first business half-year were CHF 77.9 million, up by around 38 percent compared to the previous-year period. The production output – net sales plus inventory changes in semi-finished and finished goods – also increased by around 38 percent to CHF 92.2 million. This is the result of broad-based growth distributed over various products and customers and was achieved despite ongoing geopolitical and economic uncertainties. The challenges of intermittent scale-up of processes with limited experience due to accelerated market approval processes and short-term raw materials supply bottlenecks due to the enforcement of more rigorous environmental regulations for Asian chemical producers, which had a significantly adverse impact on the previous-year period's results, are still ongoing. Net income was CHF 15.4 million compared to CHF 2.0 million in the previous-year period, which represents a significant increase.
The increase in production output compared to the previous-year period was in proportion with the course of business and led to a CHF 4 million increase in inventory in semi-finished and finished goods to CHF 14.3 million. The respective material expenses rose by 33.3 percent to CHF 23.2 million, which translates into a slightly lower material expenses share of 25.1 percent (previous-year period: 26.0 percent) in relation to the production output. Personnel expenses rose by 5.0 percent to CHF 34.0 million, mainly due to higher salaries with almost the same number of staff. Together with higher capitalized own production due to intensified investment activities in the renewal and expansion of the infrastructure and additional development and production capacities, earnings before interest, taxes, depreciation, and amortization (EBITDA) were CHF 27.9 million, up 184 percent compared to the previous-year period, with an EBITDA margin of 35.8 percent (previous-year period: 17.4 percent). The main drivers for the increase in depreciation and amortization of CHF 1.8 million compared to the previous-year period was the putting into operation of the new lab building for research and development as well as quality management and of additional chemical manufacturing capacities as well as the revaluation related to debottlenecking investments. Earnings before interest and taxes (EBIT) were CHF 18.7 million, around seven times higher than in the previous-year period. Together with the financial result and income taxes, this resulted in

net income of CHF 15.4 million (previous-year period: CHF 2.0 million). Cash flow from operating activities was CHF 18.1 million in the reporting period (previous-year period: CHF 24.8 million) due to higher working assets related to the upcoming growth. Cash and cash equivalents were CHF 38.7 million at the end of the reporting period (end of business year 2018/19: CHF 43.8 million). The equity ratio was a high 80 percent.
For the ongoing full business year 2019/20, DOTTIKON ES continues to expect net sales above the previous year's figure. The infrastructure and production plant expansion and buildup to address the ongoing product-related growth will be intensified further.

Key Figures DOTTIKON ES Group

CHF million	FY 2018/19	HY 2018/19	HY 2019/20
Net sales	**147.7**	**56.6**	**77.9**
EBITDA[1]	**39.9**	**9.8**	**27.9**
EBITDA margin (in % of net sales)	*27.0%*	*17.4%*	*35.8%*
EBIT[2]	**20.2**	**2.4**	**18.7**
EBIT margin (in % of net sales)	*13.6%*	*4.3%*	*24.0%*
Net income	**16.3**	**2.0**	**15.4**
Net income margin (in % of net sales)	*11.0%*	*3.5%*	*19.8%*
Cash flow from operating activities	**38.2**	**24.8**	**18.1**
Capital expenditure	–48.8	–22.4	–23.1
Free cash flow[3]	**–10.6**	**2.4**	**–5.0**

[1] EBITDA: earnings before interest, taxes, depreciation on property, plant and equipment, and amortization on intangible assets
[2] EBIT: earnings before interest and taxes
[3] Cash flow from operating activities and cash flow from investing activities in property, plant and equipment and intangible assets

FY: business year from April 1, 2018, to March 31, 2019
HY: business half-year from April 1 to September 30

The Annual Report 2019/20, covering the period from April 1, 2019, to March 31, 2020, will be presented on May 29, 2020.

Global economic growth dimmed in the period under review. In light of the growing economic risks and subdued inflation, central banks have adjusted their monetary policies, lowered the key interest rates and continued their monetary expansion. Still, the employment situation in industrialized nations has improved further, albeit at a slower pace. Economic growth, on the other hand, has weakened against the background of intensified international trade conflicts, social turmoil,

and geopolitical tension. Economic risks continue to rise: The combination of rising geopolitical conflicts with high debt, low interest rates and an increased willingness to realize moderate returns with high-risk financial investments is dangerous. Renewed financial market turmoil is becoming increasingly likely. The demonstration and expansion of power in the tripolar world order continues with an economically confrontational United States, subversive Russia, and self-confident, ambivalent China, intensifying the current regionalization trend by means of nationalism and regional conflicts. As a result, unpredictability and uncertainty intensify. Values such as trust, reliability, and long-term consistency, as well as cultural and regional proximity become increasingly important.

Key volume growth and innovation drivers in the pharma market are the demographic trend, the accelerated market approval for generics, biosimilars, and novel drugs, the governments' efforts to lower drug prices, and the rise in demand in China, above all for cancer drugs, in combination with a favorable financing environment.

The global sales share of patent-protected drugs is around 60 percent and is set to grow 6 to 7 percent annually in the coming years, clearly a stronger growth rate than the 2 to 5 percent expected for generics. In developed pharma markets, the share of expenses for patent-protected drugs stands at over 75 percent. The demographic trend and the accelerated market approval for novel drugs in combination with a favorable financing environment are key innovation drivers. They ensure long-term pharma volume growth despite governmental efforts to contain excessive drug price hikes and curb health care costs. In addition to the United States with a total of 42 percent and the EU5 with 14 percent of the global market share, China with nearly 10 percent market share and above-average growth in the past is becoming increasingly important.

So far, the United States has tried to curb the rising health care costs by stepping up economic competition, primarily by applying accelerated market approvals for novel drugs in particular. The resulting competitive pressure has resulted in significant price concessions for generics and larger indications with broader drug base treatment opportunities through list price discounts to drug wholesalers. However, these discounts often remain within the strongly consolidated and intransparent US drug distribution chain and hardly ever reach the patients. This has focused public attention on the steep increase in drug list prices and animated politicians to step up for more transparency regulation in pricing and price reductions, but so far with very little success. Still, the ongoing activities are expected to have some disciplinary effect on pricing.

The central Chinese government has implemented various reforms, modernized hospitals and improved the health care sector in order to facilitate inexpensive access to health insurance and innovative drugs for the population. Amid these efforts, it has gradually improved the market access for international pharma companies over the last few years. As a result, the sales share of patent-protected drugs in the Chinese pharma market is expected to rise from currently 20 to 30 percent over the next five years. Forward integration is another declared objective of China's government. Clinical data for market approval collected in China and other regions of the International Council for Harmonisation of Technical Requirements for Pharmaceuticals for Human Use (ICH) will now be mutually recognized. In 2018, 48 new drugs were approved in China, 9 of which were locally developed innovations. Around 75 percent of these new market approval applications in China were subject to accelerated approval procedures.

Due to the promising pharma market for new innovative drugs, low interest rates and a lack of investment alternatives, financing in the biotech sector remains favorable, and innovation remains high. In 2018, the Food and Drug Administration approved a record number of 59 new drugs, and for the coming five years, the market expects a total of 430 new market approvals. Oncology is and remains the largest and fastest-growing indication area and is, at the same time, the indication area with the highest activity rate where generics, biosimilars, and new market approvals will be competing for market shares.

The trend among western pharma and biotech companies to repatriate drug substance and drug product manufacturing from Asia to the West continues, mainly driven by concerns regarding supply, quality, intellectual property, intensified regulatory pressure, and rising costs. In addition, demand for chemical process and analytical method development, API manufacturing, the related services and documentation, and the respective outsourcing is on the rise. Large pharmaceutical companies struggle with lower margins amid rising costs and a lack of innovation, while smaller biotechs often lack the resources and expertise to build their own process development and production capacities in addition to product development programs. Custom Development and Manufacturing Organizations (CDMO) play a vital role in rendering these services as well as in diversifying approval risks and quantity requirement volatility. CDMO are expected to be strategic partners with a long-term perspective, rather than opportunistic service providers. Reliability, an impeccable quality track record, and profound experience are key criteria in selecting a CDMO, as a change in CDMO is time-consuming and switching costs are high.

The main risks to the generally positive outlook for the pharma market are more intense geopolitical escalation or a renewed global financial crisis and unexpectedly fast interest rate hikes. In addition, results could be adversely affected by disruptions in the supply chain due to the closure of Asian chemical producers based on the enforcement of environmental regulation, early competitive pressure due to a large number of new market approvals in comparable indication areas, stricter drug price regulation, and the occurrence of unwanted side effects related to insufficient drug safety tests on the back of accelerated market approvals. Yet regardless of these risks, the development of the pharma market creates an interesting outlook for high-quality, technologically advanced and specialized exclusive synthesis providers, especially in the field of API manufacturing. The global pharma pipeline is promising and full of innovation. Market approval processes have accelerated and competitive pressure is intensifying. Quality requirements continue to increase, resulting in longer cGMP sequences in chemical API synthesis, and foster higher manufacturing volume requirements. In combination with the increased repatriation and outsourcing of small molecule API production, the lack of process development and production expertise and capacities among biotech and pharmaceutical companies has already created initial bottlenecks in high-quality, technologically proficient chemical process development and API manufacturing capacities. This trend is set to accentuate further over the coming few years, as many CDMO have been shaken amid changes of ownership and restructuring efforts, or, based on the experience over the last two decades, are not yet ready to make capital-intensive investments in high-quality development and production capacities.

In the current pharmaceutical environment, DOTTIKON ES is well positioned to capture the imminent growth potential. The 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 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 is thus strengthening its position as strategic development and manufacturing partner and performance leader. The pharmaceutical market is and remains the main market with ongoing growth potential. In order to realize the expected product-related sales growth, DOTTIKON ES increases capacity utilization of existing plants with targeted debottlenecking investments. The planning for a raw material, intermediates, and API warehouse has been continued. In addition, the planning phase for the redimensioned chemical multipurpose production plant for APIs to secure long-term growth continues. At the same time, the initiated planning for additional chemical pilot plant and API drying capacities is being continued. Against this background, investments for the current full business-year 2019/20 will be high. In order to finance the capacity expansion plans, DOTTIKON ES is preparing to raise external financing in 2020. In order to ensure long-term growth, the independent Performance Chemicals project team develops new proprietary innovative products to satisfy currently unmet market needs outside the pharmaceutical market and to bring these products closer to market readiness.

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 positions itself as strategic development and manufacturing partner and performance leader. Its safety culture created over the past 105 years guides innovative use of hazardous reactions, low-temperature and high-pressure chemistry, as well as continuous processing. This challenges, tightens or shortens conventional chemical synthesis routes, increases yields, selectivities and purities, and reduces 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 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 as well as clear and transparent data and process documentation and customer communication.

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