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DOTTIKON ES: Higher Sales and Net Income – Investments in Further Growth

Dottikon, Switzerland, May 29, 2020 – SIX-listed DOTTIKON ES HOLDING AG closed its business year 2019/20 on March 31, 2020.

- Net sales of CHF 174.8 million, up 18.3 percent compared to the previous year
- EBITDA of CHF 55.4 million, up 39.0 percent compared to the previous year
  - EBITDA margin of 31.7 percent (previous year: 27.0 percent)
- EBIT of CHF 36.5 million, up 80.9 percent compared to the previous year
  - EBIT margin of 20.9 percent (previous year: 13.6 percent)
- Net income of CHF 33.2 million, up 104.0 percent compared to the previous year
  - Net income margin of 19.0 percent (previous year: 11.0 percent)
- Research and development expenses of CHF 18.3 million, up 13.6 percent to 10.5 percent of net sales
- Investments of CHF 44.4 million in development and production capacities
- Significant investments in further growth in the future
  - Debottlenecking of existing plants for medium-term growth
  - New chemical multipurpose API production plants for long-term growth
  - First external financing in preparation for 2020
- The Board of Directors proposes to the Annual General Meeting of July 3, 2020
  - No dividend payment
  - Reelection of Dr. Markus Blocher as Chairman of the Board of Directors and the Remuneration Committee
  - Reelection of Dr. Alfred Scheidegger, new as Vice President of the Board of Directors and the Remuneration Committee
  - Election of Dr. Bernhard Urwyler as member of the Board of Directors and the Remuneration Committee (until July 3, 2020: Advisory counselor)
  - Reelection of KPMG AG, Zug, as auditors

Review

At CHF 174.8 million, net sales in the business year 2019/20 were 18.3 percent higher than in the previous year and were broad-based in terms of products and customers. The production output for the full business year – net sales plus inventory changes in semi-finished and finished goods – increased by 15.7 percent compared to the previous year. The CHF 10.2 million increase in semi-finished and finished goods reflects the high order volume for the ongoing business year 2020/21. Capitalized own production and hence other operating income increased due to significant investments in new production capacities. Material expenses stood at CHF 44.8 million, representing 24.2 percent of the production output, and were slightly below the previous-year figure in relative terms. Personnel expenses rose by CHF 3.6 million or 5.4 percent to CHF 69.9 million. The increase was in equal proportion due to the 2.4 percent staff buildup and to higher wages. In combination with higher other operating expenses, earnings before interest, taxes, depreciation, and amoritzation (EBITDA) were CHF 55.4 million, up 39.0 percent compared to the previous year, while the EBITDA margin was 31.7 percent (previous year: 27.0 percent). Due to an impairment charge in the previous year, depreciation and amortization at CHF 18.9 million was CHF 0.8 million lower compared to the previous year despite commissioning the new lab building for research and

development as well as quality management and additional chemical production capacities. Earnings before interest and taxes (EBIT) stood at CHF 36.5 million, 80.9 percent higher than in the previous year, and the EBIT margin was 20.9 percent (previous year: 13.6 percent). The financial result was CHF 2.1 million higher than in the previous year, mainly due to the valuation of the employer contribution reserve related to higher pension fund investment returns. With the Federal Act on Tax Reform and AHV Financing coming into effect, and due to the application of the additional tax deduction for research and development expenses contained therein, income taxes were CHF 4.8 million owing to the high share of research and development activities. This translates into a tax rate of around 13 percent (previous year: around 17 percent). Net income stood at CHF 33.2 million (previous year: CHF 16.3 million), and the net income margin was 19.0 percent (previous year: 11.0 percent).
The cash flow from operating activities stood at CHF 43.7 million, up 14.5 percent compared to the previous year. Cash outflows from investments were CHF 44.4 million, 9.1 percent lower than in the previous year. Cash and cash equivalents decreased slightly to CHF 42.8 million (previous year: CHF 43.8 million). The equity ratio is a strong 82.1 percent.

Assessment of situation
The United States, China, and Russia continue to establish and lead a tripolar world order. The COVID-19 pandemic has unmasked the vulnerability and interdependence of these opponents. Europe is crumbling, which will spark nationalism and secession efforts after the pandemic. This fuels the potential for economic, fiscal, as well as military conflicts.
The major strategies to combat SARS-CoV-2 have created a generational conflict paradox: The older generation is protected at the expense of the younger generation's future, who in turn today live off the wealth created by the older generation. The desperate attempt to return from the mitigation to the containment phase with lockdown measures will result in a major delay in establishing herd immunity and generate considerable economic damage. With this strategy, global economic mobility can only be regained with the wide availability of a vaccine, provided that the protective measures implemented by the individual nations are lifted by then.
Because of the lockdown measures in response to the pandemic, the global economy has experienced an abrupt collapse and has been in steep decline since February 2020. For the first time since the Great Depression of the 1930s, industrialized, emerging, and developing economies will simultaneously slide into recession. Existing global debt has risen further from its previous record high, and the increasingly expansive monetary policies implemented to soften the blow from the adverse impact of the lockdown measures further aggravate this situation and are set to burden the global economic development in the long term. The COVID-19 crisis has bluntly revealed the risks and interdependencies within the global value chains created by a long phase characterized by global economies of scale and the outsourcing of key value chain segments. Values such as consistency, reliability, and trust, as well as cultural and regional proximity become increasingly important amid the crisis and establish the foundation of trust for future economic as well as political relations. If this development results in more broadly based regional supply chains, the costs for goods will inevitably rise. In combination with the decisively expansive monetary policies, this could result in inflation. Such a scenario would force central banks to deviate from their low interest rate policies, which would bring about potentially disastrous increases in interest rates for heavily indebted countries, companies, and individuals.

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Demographic developments, accelerated market approvals for generics, biosimilars, and novel drugs, government attempts to reduce drug prices, as well as a steep rise in drug demand in China remain key medium- and long-term volume growth and innovation drivers in the pharmaceutical market. The demographic trends ensure further long-term volume growth. Global life expectancy continues to rise, even if it is at lower rates than in the previous years in industrialized countries. In the short term, there will be a COVID-19 effect related to the clearly higher mortality rate among over-65-year-olds. In the most important drug sales nations, the 65+ age group represents between 11 (China) and 28 percent (Japan) of the population. If over a long period, neither a vaccine nor new drug treatments to drastically reduce the SARS-CoV-2 infection or COVID-19 mortality rates are available, global annual drug sales could plummet by around CHF 50 billion. In addition, the development of drug candidates unrelated to COVID-19 will be adversely affected when hospitals are overwhelmed. Once the crisis is over, cost pressure in the health care system is likely to diminish given an increase in health awareness, despite the fact that governments will need to cut their budgets in light of higher government debt.

Despite this development, global drug spending will surpass the CHF 1'000 billion mark in the years ahead. In developed markets, the strong increase in spending on novel specialty drugs is offset by lower prices for the most important drugs on the back of a loss of exclusivity. In contrast, in pharmerging markets, the increase in access to the health care system seen over the last decade and the respective volume and spending growth are slowing down. On the one hand, the increase in global drug spending is due to a wider use of primarily generic diabetes, respiratory tract, cardiovascular, and oncology drugs. On the other hand, it is attributable to new specialty drugs and innovative products, which currently make up 36 percent of global drug spending and, with annual growth rates of 5 to 8 percent, continue to inch closer to a sales share of 40 percent. The respective sales growth is most significant in developed pharma markets, which represent over 60 percent of global drug sales. In these markets, their share is already 44 percent, with an expected increase to 52 percent over the coming five years. Just as before, strong profitable growth over the coming five years will therefore be fueled by specialty drug sales in developed markets. In 2019, the FDA approved 48 new drugs, 38 of which were small molecules and a further 10 were biologics. The share of biologics among drug candidates that await their approval has increased further in 2019, reaching 40 percent despite higher development costs as well as far more demanding requirements in terms of quality and supply chain management. Even so, small molecules are set to defend their global drug sales market share of a little over two thirds over the next five years, with half of this share attributable to patent-protected or branded generic small molecule drugs, while biologics only account for 20 percent. The market for so-called Custom Development and Manufacturing Organizations (CDMOs) is set to grow by 7 percent over the coming five years on the back of the underlying pharma volume market growth and the growing outsourcing trend. The main drivers are, on the one hand, large pharmaceutical companies which have previously only outsourced 20 percent of newly approved drugs and now increasingly opt for in-house manufacturing of biologics while instead outsourcing small molecule manufacturing; and on the other hand, small and medium-sized biotechs which outsource roughly 80 percent and now increasingly gain market shares among newly approved drugs.

Given that biologics, biosimilars, cell and genetic therapy, as well as drug product manufacturing and sterile filling promised higher relative growth and margins compared to small molecule API manufacturing, CDMOs have invested heavily in these areas by means of acquisitions as well as buildup and expansion efforts. In addition to debottlenecking and expansion investments in existing production plants, however, there was hardly any buildup of new small molecule API production capacity. The trend to repatriate drug substance and drug product manufacturing to the West, driven by concerns regarding quality and reliability, is still ongoing and gains further traction on the back of China's strict enforcement of environmental requirements, its reduction in the number of chemical parks and a further intensification of the trade dispute between the United States and China. It is safe to assume that the COVID-19 crisis will have a similar effect. As a result, shortages in high-quality and technologically versatile process development and API manufacturing capacities are inevitable.

Outlook

In the current market and pharmaceutical environment and with the continuously expanded chemical process development as well as the analytical and API manufacturing capacities at its Dottikon site in Switzerland, DOTTIKON ES is well positioned to capture the imminent small molecule growth potential in the short term, and secure it with ongoing expansion investments in the medium term, as well as with the construction of new production plants in the long term.

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 cultivates an integrated partnership with its customers. 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 small molecules pharmaceutical market is and remains DOTTIKON ES' main market with ongoing growth potential. The utilization of existing plants is increased with targeted debottlenecking investments to facilitate the capturing of the expected medium-term sales growth. The planning of a new chemical multipurpose API production plant to secure long-term growth has reached a stage that allows for the beginning of construction during the ongoing business year 2020/21. At the same time, DOTTIKON ES has initiated the planning for additional pilot plant and API drying capacities. Against this background, investments will remain high also for the ongoing business year 2020/21. From today's point of view, DOTTIKON ES is preparing initial external financing options for 2020 to finance its capacity expansion plans. In order to ensure long-term growth, DOTTIKON ES' independent Performance Chemicals project team continues to develop new, innovative proprietary products to satisfy currently unmet market needs outside the pharmaceutical market and brings these products closer to market readiness.

For the ongoing full business year 2020/21, DOTTIKON ES expects net sales above the previous year's figure.

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Key Figures DOTTIKON ES Group

CHF million	FY[1] 2018/19	FY[1] 2019/20	Changes
Net sales	**147.7**	**174.8**	18.3%
Changes in semi-finished and finished goods	12.2	10.2	
Other operating income	5.4	6.3	
Material expenses	–39.5	–44.8	
Personnel expenses	–66.3	–69.9	
Other operating expenses	–19.6	–21.2	
EBITDA[2]	**39.9**	**55.4**	39.0%
EBITDA margin (in % of net sales)	*27.0%*	*31.7%*	
Depreciation and amortization	–19.7	–18.9	
EBIT[3]	**20.2**	**36.5**	80.9%
EBIT margin (in % of net sales)	*13.6%*	*20.9%*	
Financial result[4]	–0.6	1.5	
Income taxes	–3.3	–4.8	
Net income	**16.3**	**33.2**	104.0%
Net income margin (in % of net sales)	*11.0%*	*19.0%*	
Earnings per share (in CHF)	**13.00**	**26.48**	103.7%
Proposed dividend per share (in CHF)	–	–	
Cash flow from operating activities	**38.2**	**43.7**	14.5%
Investments[5]	–48.8	–44.4	
Free cash flow[6]	**–10.6**	**–0.7**	

[1] FY 2018/19: April 1, 2018, to March 31, 2019; FY 2019/20: April 1, 2019, to March 31, 2020
[2] EBITDA: earnings before interest, taxes, depreciation on property, plant and equipment, and amortization on intangible assets
[3] EBIT: earnings before interest and taxes
[4] Including result from associated companies
[5] Investments: Cash flow from investing activities
[6] Cash flow from operating activities and cash flow from investing activities in property, plant and equipment and intangible assets

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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 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. 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 multitons 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.
Symbol: DESN
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