DOTTIKON ES – Growth, Higher Profitability and Construction of New Production Plant

Dottikon, Switzerland, November 27, 2020 – 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 2020/21 on September 30, 2020.

- Net sales were up 17.8 percent compared to the previous-year period (PY) at CHF 91.8 million
- EBITDA rose by 21.5 percent to CHF 33.9 million
  - EBITDA margin was 36.9 percent (PY: 35.8 percent)
- EBIT was up 31.5 percent at CHF 24.6 million
  - EBIT margin was 26.8 percent (PY: 24.0 percent)
- Net income rose by 36.9 percent to CHF 21.1 million
  - Net income margin was 23.0 percent (PY: 19.8 percent)
- Cash flow from operating activities rose by CHF 28.2 million to CHF 46.3 million
- The Board of Directors has approved an investment of CHF 275 million for the construction of a new chemical multipurpose production plant for APIs to secure long-term growth. The plant will be operational in 2025
- Over the coming two business years, 100 new jobs will be created at the production site in Dottikon (Aargau, Switzerland)

Review

In the first business half-year, net sales were CHF 91.8 million, up 17.8 percent compared to the previous-year period. This is the result of broad-based growth diversified over several market-approved, patent-protected products of different customers, with innovative, chemically manufactured APIs for various indications. Growth was mainly unaffected by COVID-19 and will continue. Net income was CHF 21.1 million, up 36.9 percent compared to the previous-year period. Growth is set to continue throughout the current full business year 2020/21, and the related increased production output – net sales plus inventory changes in semi-finished and finished goods – as well as the high production capacity utilization resulted in another increase in semi-finished and finished goods by CHF 12.2 million. The respective material expenses rose underproportionately by 10.5 percent to CHF 25.6 million. This represents a slightly lower share in relation to the production output of 24.6 percent (PY: 25.1 percent). Personnel expenses rose by 7.3 percent to CHF 36.5 million due to a higher number of staff and higher wages. The average staff number rose by 5.9 percent compared to the previous-year period to around 630 full-time equivalents. In combination with higher capitalized own production due to intensified investment activities as well as increased operational maintenance related to higher capacity utilization, earnings before interest, taxes, depreciation, and amortization (EBITDA) were above the previous-year period with CHF 33.9 million (PY: CHF 27.9 million). The EBITDA margin was 36.9 percent (PY: 35.8 percent). At CHF 9.3 million, depreciation and amortization were slightly higher than in the previous-year period. Earnings before interest and taxes (EBIT) were CHF 24.6 million, up 31.5 percent compared to the previous-year period, while the EBIT margin was 26.8 percent (PY: 24.0 percent). Combined with the financial result and the income taxes, net income

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was CHF 21.1 million (PY: CHF 15.4 million) with a net income margin of 23.0 percent (PY: 19.8 percent). Cash flow from operating activities was CHF 46.3 million in the reporting period (PY: CHF 18.1 million), while cash outflows from investments were CHF 22.5 million (PY: CHF 23.1 million). The free cash flow was CHF 23.8 million in the reporting period. At the end of the reporting period, cash and cash equivalents were CHF 66.6 million. The equity ratio amounted to 80.3 percent.

Assessment of situation

The global economy has experienced a sharp decline amid the Corona pandemic and the countermeasures taken. Broad-based testing reveals the virus SARS-CoV-2 as less dangerous than assumed in spring. Still, lethality appears to be higher for older people with pre-existing conditions than a strong flu. Numerous countries had initially eased their measures, but the revitalization of the economy that has just begun is already threatened by the second and third waves of the pandemic and the resulting government measures. A more sustainable recovery of the global economy will be dependent on either the availability of vaccines against the virus or a rational approach to the pandemic on the way to reaching population immunity. The monetary and fiscal measures taken so far around the globe provide an important safety net for the economic activity in the short term, while at the same time causing unprecedented levels of government debt. Central banks have started to finance, either directly or indirectly, vast portions of the resulting increase in government debt. Combined with the looming bankruptcy of numerous small and medium-sized enterprises and the observable renunciation of the globalization trend, the central banks' long-awaited inflation could suddenly set in.

The tripolar world order led by the United States, China, and Russia continues. NATO, the formerly successful North Atlantic military alliance, is softening, despite a deteriorating strategic environment for the United States and Europe in which a strong, unified NATO would be of utmost importance. China aims at fully annexing and integrating Hong Kong, Taiwan, as well as the South and East China Sea. To this end, the nation rearms its military forces and pursues a strategy of political order based on the wellbeing of the collective and surveillance with modern technologies. Moreover, China steps up its influence in the international system and in multilateral forums, skillfully using the retreat of the United States for its own interests. Russia, meanwhile, aims at reviving the old Soviet Union. It uses economic, political, and military means to achieve this goal, as can be seen in Syria, the South Caucasus, Eastern Ukraine, and Belarus. The Baltic States and Poland feel increasingly threatened. Just like the United States, Europe is basically in a tough competition with Russia and China about values and order, influence, technological leadership, and markets, but has so far hesitated to take a clear position in the US-Russian and US-Chinese conflicts. All of these factors add fuel to the reigning unpredictability and uncertainty. The further course of the domestic policy in the United States will have a decisive impact on geopolitical developments, with the United States' success rate in overcoming the deep social rift among citizens regarding values, origin, education, and wealth playing a key role.

Values such as consistency, trust, and reliability, as well as cultural regional anchoring and proximity become increasingly important in crises to establish a trust base for existing and future business as well as political relations. The pandemic has unveiled interdependencies and

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strategic weaknesses in many places. The consequence is a rising quest to reduce geopolitical dependencies and interests. Against the back of the proliferation of the tripolar world order and the resulting regionalization, the repatriation trend continues, resulting in a more broad-based regional value chain for sensitive goods despite the fact that costs will rise for the benefit of greater supply security. For the coming decade, the North West is expected to experience a period of reindustrialization. Professional specialists will regain the significance that they deserve. This development can contribute to bridging the current social rift. To this end, however, governments must take on the challenge inherent in their key tasks to build the foundation for (i) education with a focus on language (verbal and written), mathematics, natural sciences, technology, and IT by means of demanding public education for capable people regardless of their origin; (ii) personal security and safety, health, and protection of property; (iii) sufficient water and power supply; as well as (iv) a functional transportation infrastructure. The financial means have to be freed up by a step-by-step reduction of the governmental social benefits, funding services, and regulation, which had been increased continually in the past, while at the same time giving more responsibility back to individuals and enterprises. In this transition, a temperate compromise that is built on fact-based logic for the welfare of the collective must take precedence over particular interests. Real sustainability is a well-balanced compromise between fundamental values – not principles – of a society, the economy, and the environment. It's about meeting the needs of the present without compromising the ability of future generations to meet their own needs. Or, translated into chemical terms: sufficient yield with minimum cost of resources (i.e. material and energy).

Outlook
Demographic developments, accelerated market approvals for generics, biosimilars, and novel drugs, government attempts to reduce drug prices, as well as a rise in drug demand remain key medium- and long-term volume growth and innovation drivers in the pharmaceutical market. The demographic trends ensure further long-term volume growth. Fast-growing pharmaceutical markets over the last few years were innovative specialty drugs and patent-free biosimilars in developed pharmaceutical markets on the one hand, and generics in pharmerging markets on the other hand. Future pharma sales growth will be driven by prescription drugs with annual growth rates of 7 to 8 percent as well as by patent-protected innovations. For innovative, patent-protected small molecule drugs (APIs), annual growth rates are expected to reach 6 to 7 percent. Biotechs increasingly and successfully introduce their own developments to the market and have expanded their market share compared to large pharmaceutical companies. This was made possible thanks to a very liquid capital market over the last ten years as well as increased long-term risk appetite of investors due to a lack of alternatives. In 2019, the Food and Drug Administration (FDA) approved 48 new drugs, 38 of which were small molecules. By early October 2020, the FDA has already approved 40 new drugs, 31 of which were small molecules. Extrapolated for the full year, this would correspond to 53 market approvals for 2020 or a 10 percent increase over the previous year. For the years ahead, the number of new market approvals is expected to rise. Analysts estimate that the FDA will approve more than 500 new drugs over the coming six years on the back of the well-filled biotech and pharma pipeline.

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The key growth drivers over the coming few years remain innovative small molecules developed by US and European biotech companies for these two markets.
The trend to repatriate drug substance and drug product manufacturing that set in a few years ago and was mainly driven by concerns regarding quality and reliability has gained traction amid uncompromising implementation of stricter environmental regulation in Asia and an intensified trade dispute between the United States and China. The revelation of strategic weaknesses in medical supplies amid the COVID-19 crisis will have the same effect. In combination with the expected reindustrialization and the respective need for regionally sourced chemical products, this will inevitably result in shortages in high-quality and technologically versatile chemical process development and API manufacturing capacities. Those are exactly the capacities that innovative biotech and pharmaceutical companies will require for the development and market introduction of their new small molecule drugs. The market is already showing initial signs of capacity bottlenecks.
The main risks to the generally positive outlook for the pharma market are larger warlike geopolitical upheavals or a renewed global financial crisis due to unexpectedly fast interest rate hikes. In addition, results could be adversely affected by disruptions in the supply chain due to production downtime among Asian chemical producers related to environmental regulation issues, earlier competitive pressure amid a large number of new market approvals for similar indications, tougher governmental drug price regulation, and the occurrence of unwanted side effects related to insufficient drug safety tests on the back of accelerated market approvals.

In the current pharmaceutical environment, DOTTIKON ES is well positioned to capture the imminent growth potential. The performance leadership 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. DOTTIKON ES' one-site strategy allows reduced decision and communication pathways. The pharmaceutical market is and remains DOTTIKON ES' main market with ongoing growth potential. The utilization of existing plants is increased with targeted debottlenecking investments until mid-2021 to facilitate the capturing of the ongoing volume growth. The planning of new raw material, intermediates, and API warehouses has been continued. To secure long-term growth, a new chemical multipurpose plant will be constructed and will be operational in 2025. 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 2020/21 will be high and rise further thereafter. In order to finance the capacity expansion plans, DOTTIKON ES has started the implementation phase for the raising of external financing. In order to secure long-term growth, DOTTIKON ES' independent Performance Chemicals project team continues to develop new, innovative 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 CHF 200 million. The infrastructure and production capacity expansion and buildup to address the ongoing growth continues. To this end, the Board of Directors has approved an investment of CHF 275 million for the construction of a new chemical multipurpose production plant for APIs. The plant will be operational in 2025.

Key Figures DOTTIKON ES Group

CHF million	FY 2019/20	HY 2019/20	HY 2020/21
Net sales	**174.8**	**77.9**	**91.8**
EBITDA[1]	**55.4**	**27.9**	**33.9**
EBITDA margin (in % of net sales)	*31.7%*	*35.8%*	*36.9%*
EBIT[2]	**36.5**	**18.7**	**24.6**
EBIT margin (in % of net sales)	*20.9%*	*24.0%*	*26.8%*
Net income	**33.2**	**15.4**	**21.1**
Net income margin (in % of net sales)	*19.0%*	*19.8%*	*23.0%*
Cash flow from operating activities	**43.7**	**18.1**	**46.3**
Investments[3]	–44.4	–23.1	–22.5
Free cash flow[4]	**–0.7**	**–5.0**	**23.8**

[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] Investments: cash flow from investing activities
[4] 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, 2019, to March 31, 2020
HY: business half-year from April 1 to September 30

The Annual Report 2020/21, covering the period from April 1, 2020, to March 31, 2021, will be presented on May 28, 2021.

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 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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