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DOTTIKON ES Continues to Grow; Rising Raw Material Costs Affect Margins

Dottikon, Switzerland, May 31, 2022 – 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 business year 2021/22 on March 31, 2022.

- Net sales of CHF 251.9 million, up 15.1 percent compared to the previous year (PY)
- EBITDA at CHF 88.8 million, up 11.3 percent
  - EBITDA margin of 35.2 percent (PY: 36.4 percent)
- EBIT at CHF 67.7 million, up 11.6 percent
  - EBIT margin 26.9 percent (PY: 27.7 percent)
- Net income of CHF 59.3 million, up 13.3 percent
  - Net income margin 23.5 percent (PY: 23.9 percent)
- Investments in API manufacturing plants of CHF 79.1 million, up 51.0 percent
- The Board of Directors proposes to the Annual General Meeting of July 1, 2022
  - No dividend payment due to reinvestment of net income within DOTTIKON ES
  - Reelection of all members of the Board of Directors and the Compensation Committee in their current functions
  - Reelection of external auditors

Review

At CHF 251.9 million, net sales of DOTTIKON ES in the business year 2021/22 were 15.1 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 – rose by 15.8 percent compared to the previous year. The increase in semi-finished and finished goods of CHF 26.7 million resulted from the high order volume for which production has already partially started. Other operating income rose by 25.6 percent to CHF 8.0 million compared to the previous year, among others because of higher capitalized own production due to intensified investment activities for the construction of new production capacities and infrastructure. At CHF 80.0 million, material expenses were up 20.0 percent compared to the previous year and represented 28.7 percent of the production output. The material portion of the production output was up 1.0 percentage points compared to the previous year due to higher raw material costs. Personnel expenses rose by 5.2 percent to CHF 79.0 million in the business year 2021/22, with a large part of the increase due to a 4.1 percent staff buildup to an average of 665 full-time equivalents and higher salaries. In combination with other operating expenses, which were up CHF 13.4 million compared to the previous year mainly because of ongoing costs and provisions made for the excavation of burdened soil and changes in regulatory requirements, EBITDA was CHF 88.8 million, up 11.3 percent compared to the previous year, with an EBITDA margin of 35.2 percent. At CHF 21.1 million, depreciation and amortization rose by 10.3 percent compared to the previous year on higher investment activities. EBIT rose by 11.6 percent to CHF 67.7 million compared to the previous year, with an EBIT margin of 26.9 percent. At

CHF 1.6 million, the financial result was above the previous year's figure, mainly because of higher employer contribution reserve valuations as a result of higher financial asset returns in the pension fund. After the result of associated companies and taxes, net income stood at CHF 59.3 million, up 13.3 percent compared to the previous year, and the net income margin was 23.5 percent.
Compared to the previous year, cash flow from operating activities decreased by 39.6 percent to CHF 36.2 million, mainly due to an inventory buildup. Cash outflows from investment activities amounted to CHF 79.1 million, 51.0 percent above the previous year. At the end of the business year, cash and cash equivalents were CHF 206.8 million. The equity ratio is 83.3 percent.

Assessment of situation – Geopolitics and economy
Russia's military attack on Ukraine ostensibly shifted the tensions of the tripolar world order from the United States and China to the United States and Russia. The economic sanctions against Russia as countermeasures to the military attack on Ukraine have once again put a spotlight on the strong economic interdependencies of the three main geopolitical players that were established during decades of globalization. Until now, both Russia and Ukraine have been important global producers of essential raw materials for food production, energy supply, the construction industry, mechanical engineering, and even the manufacture of microchips, which were already in short supply before the outbreak of the war. As a result of the destruction of production facilities in the war zone and the sanction-related supply interruptions, there are considerable supply disruptions and steep price increases along a wide range of value chains, which will continue for some time.
The end of the Cold War just over 30 years ago was followed by a nearly conflict-free global, rapidly expanding, and increasingly interconnected phase of economic prosperity. Many companies used the global economies of scale through specialization and consolidation of value chains and segments via outsourcing and a concentration on a small number of suppliers in low-cost countries in order to boost earnings growth. Research and development for sustainable long-term innovation, in-house production, and strategic supply security had been carelessly neglected in favor of short-term profits. The population of democratic states also let themselves be seduced by the tempting ideology of an everlasting conflict-free world with eternal growth in prosperity through an increase in national debt. Politicians elected in this environment promoted social welfare and favored the particular interests of a large number of broadly diversified interest groups. Society, or rather the political leadership elected by it, got lost therein instead of focusing its activities on the strategic duties required for fulfilling the state's core tasks and securing sustainable common wealth. Let's not forget, the core tasks are (i) demanding public education for capable people regardless of their origin, with a focus on language (verbal and written), mathematics, natural sciences, technology, and IT, while promoting critical thinking and free speech; (ii) food supply, personal security and safety, and protection of property and health; (iii) sufficient water and power supply; and (iv) a functional transportation infrastructure – all with the superior goal of securing independence and freedom in the long run.
China is the world's largest exporter, with Europe and the United States acting as its main export markets. As a result of the tension with the United States, China has attempted a dual circulation strategy to break away from material dependence on the United States and Europe by promoting

domestic demand through technological autarchy, while at the same time increasing the economic dependence of the United States and Europe on manufactured goods from China.
With rising vaccination rates, milder virus variants, and correspondingly milder courses of disease, an increasing excess demand was observed after the first relaxation of COVID measures, which had already led to distortions in the global value and logistic chains in the months before the war and hence to supply gaps and an increase in the cost of materials and wages. The rushed green deal measures taken by European and US governments in recent years have resulted in a steep rise in energy and electricity prices. The war in Ukraine as well as the recent COVID developments in China will further fuel inflation through additional supply gaps and price hikes over the coming months. This will unavoidably lead to interest rate hikes and, combined with record debt levels, trigger a massive global economic crisis.
Contrary to the situation at the end of World War II, today's government debt is not primarily driven by military spending. Lowering the debt levels in the period following World War II was possible without much resistance and with broad acceptance. The main drivers of today's debt levels, however, are social spending and government transfers, massive cuts in which will be much more difficult to implement and enforce politically and socially and will inevitably lead to higher taxes and a reduction in social security. The political forces will no longer be able to keep their loudly and proudly propagated sociopolitical promises. The cumulative increase in food and energy prices will hit the lower social strata the hardest. This will go hand in hand with tension – social unrest and significant shifts in political forces will be on the rise. The means for debt reduction should be made available through a gradual cut-back on governmental social benefits and funding services as well as overregulation, which had been increased continually over the last years, while at the same time assigning responsibility to individuals and enterprises. In this context, a moderate compromise built on fact-based logic in favor of the well-being of the collective must take precedence over the individual's particular interests. At the same time, in the current environment, governments must massively step up military spending, which had long been neglected. All these efforts must pursue the objective of securing independence and freedom and must take the prioritization of the core government tasks listed before into account.
Real sustainability is a well-balanced compromise between fundamental values – not dogmas – of a society, the economy, and the environment. It's about meeting the needs of the present without compromising those of the future. Or, in chemical terms: sufficient selectivity and turnover, and therefore yield, with minimum use of resources.
In the event of a major armed or economic escalation between the power poles, the high degree of specialization, concentration, and organization of the value chains and their segments bear an immense potential for economic, technological, and cultural loss and destruction. This threat awakens the need for a reduction in geopolitical dependence and a corresponding realignment of interest linkages. Values such as consistency, trust, and reliability as well as cultural regional proximity are an important trust base for building new or expanding existing business as well as political relations. Therefore, repatriation through near- and onshoring as well as the regionalization trends continue. Even at higher costs, the value chains for sensitive goods are given a strategically broader regional base in the interest of achieving greater supply security. For the coming decade, therefore, reindustrialization – and hence the demand for (fossil) energy – will

gain traction in Europe as well as in the United States. Only those who explore, mine, extract, and manufacture will have unrestricted access to goods.

Assessment of situation – Biotech/pharma

Demographic developments in an increasingly aging population with the associated rise in drug demand particularly in developed countries with high purchasing power, the accelerated market approvals for novel drugs, the growth of biosimilars as well as government attempts to reduce drug prices and health care costs remain key medium- and long-term volume growth and innovation drivers in the pharmaceutical market. In addition, the demographic trend ensures stable fundamental volume growth in the long term. Global life expectancy will continue to rise in the medium term, not least thanks to progress in the treatment of cancer, the world's second most common cause of death. In countries with lower and falling purchasing power, sales volumes will fall and access to drugs will become more limited because of the reduced purchasing power. Today, half of the world's population consumes at least one drug dose per day already. In five years, generics and biosimilars will account for around 90 percent of the global market volume for prescription drugs, while patented drugs will account for around 10 percent. Overall annual sales for these prescription drugs will be around CHF 1'700 billion in 2026, with patent-protected drugs accounting for around 60 percent of the total and generics/biosimilars representing the remaining 40 percent. 90 percent of globally sold patent-protected drugs worth around CHF 900 billion are sold in developed countries. Over the last five years, global drug sales grew by around 7 percent annually. While small molecules, which account for around two-thirds of sales, grew at an average annual rate of 4 to 5 percent, biologics grew by around 11 to 13 percent. Over the next five years, global annual market sales growth is expected to be 4 to 5 percent for the overall market, 9 to 12 percent for biologics, and 2 to 4 percent for small molecules. Overall, growth will therefore be weaker than previously expected, in particular as a result of larger sales volumes of some important drugs affected by expiring market exclusivity and government measures to absorb the sharp cost increases due to the pandemic, as well as the historically high number of expensive new registrations. The annual growth outlook for the segment of patent-protected innovative drugs continues to be higher, at 7 to 8 percent, divided into biologics with expected growth rates of 8 to 10 percent and small molecules with growth rates of 4 to 7 percent. Today, more than 5'400 companies are active in drug development, more than twice as many as ten years ago. Sources of funding for biotech/pharma companies and their respective development pipelines remained abundant throughout 2021. The IPO share of biotech companies whose drug candidates are still in early preclinical phase or phase I has increased steadily over recent years. Valuations have also been pushed higher and higher. With the geopolitical changes described earlier and the expected rise in inflation and interest rates, the willingness of financial investors to invest in biotech companies that are still in the early stages of risky clinical development and can only offer a possible cash flow in the distant future is set to decline. However, sufficient financial resources are still available for the coming years to drive the business forward operationally and strategically, even though raising new funds has become much more challenging for biotech companies without a current cash flow. In the longer term, this will also be reflected in weaker pipeline growth rates.

An improved molecular biological understanding of the human metabolism and the improved early scientific selection of working drug candidates, the accelerated market approval, attractive return prospects for innovative drugs, and the high inflow of funds over the past few years all contribute to an increase in the number of drug candidates and novel drug approvals for the years to come. The increasingly specific and more targeted drugs lead to more complex and longer manufacturing routes, which results in a higher number of production steps under the strongly regulated current good manufacturing practice (cGMP) quality standards for the production of active pharmaceutical ingredients (API). Consequently, demand for high-quality development and production capacities continues to rise steeply. In combination with the cross-industry repatriation efforts, this continues to lead to shortages in high-quality and technologically versatile chemical process development and API manufacturing capacities. This holds particularly true for small molecules, as regional demand for chemical development and manufacturing capacities also from other industries is on the rise due to the current geopolitical situation. In addition, Western supply chains in general still heavily depend on materials from Asia and are therefore exposed to erratic government actions that affect availability in the context of geopolitical tension.
The fundamentally positive market dynamics may be significantly impacted by the developments described before. The greatest risk factors are the increasing competitive pressure for innovative drugs because of the rise in the number of new active ingredients, dwindling sources of financing, declining levels of information and organization due to high staff turnover, government price regulation, impeded availability of raw materials, spare parts, or equipment, and inadequate energy and electricity supply.

Outlook
DOTTIKON ES started preparing for the expected increase in demand related to innovation and repatriation years ago. In a first phase, it invested in additional development and quality management capacities. In a second phase, production capacities in existing plants were expanded and bottlenecks were eliminated through targeted investments in order to increase their output. Two of these expansions have become operational in the business year 2021/22. The current third phase focuses on the construction of new chemical production and drying plants for APIs, new warehouse capacities, and infrastructure. During the next seven years, DOTTIKON ES will invest around CHF 700 million in new chemical production and drying plants for APIs as well as in infrastructure and will create over 200 new jobs in Research and Development, Production, Quality Management, as well as Technology and Engineering at its development and manufacturing site in Dottikon (Aargau, Switzerland). The new API drying plant will become operational in 2024, followed by the new chemical API production plant in 2025 and subsequently a new chemical API pilot plant. This will almost double the available high-quality production capacity at the site and allows to capture disproportionately high market growth in the custom synthesis of small molecule APIs. In the current business year 2022/23, investments will rise again significantly. DOTTIKON ES' one-site 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. DOTTIKON ES' one-site strategy allows reduced decision and communication pathways. This ensures rapid and efficient project development and management, clear and transparent data and process documentation, and close customer communication. 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 sustainably. Furthermore, 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.

The small molecule pharma/biotech API market is and remains DOTTIKON ES' main market with ongoing growth potential. The utilization of existing plants is increased with efficiency improvements until the additional new plants become operational. In order to secure long-term growth, DOTTIKON ES' independent Performance Chemicals unit continues to develop new, innovative products to satisfy currently unmet market needs outside the pharmaceutical market and brings these products closer to market readiness. It also pursues opportunities in the industrial chemicals sector.

For the ongoing full business year 2022/23, DOTTIKON ES expects net sales above the previous year's figure.

Key Figures DOTTIKON ES Group

CHF million	FY[1] 2020/21	FY[1] 2021/22	Changes
Net sales	**218.9**	**251.9**	15.1%
Changes in semi-finished and finished goods	21.7	26.7	
Other operating income	6.3	8.0	
Material expenses	–66.7	–80.0	
Personnel expenses	–75.1	–79.0	
Other operating expenses	–25.3	–38.8	
EBITDA[2]	**79.8**	**88.8**	11.3%
EBITDA margin (in % of net sales)	*36.4%*	*35.2%*	
Depreciation and amortization	–19.2	–21.1	
EBIT[3]	**60.6**	**67.7**	11.6%
EBIT margin (in % of net sales)	*27.7%*	*26.9%*	
Financial result[4]	0.6	2.0	
Income taxes	–8.9	–10.4	
Net income	**52.3**	**59.3**	13.3%
Net income margin (in % of net sales)	*23.9%*	*23.5%*	
Proposed dividend per share (in CHF)	–	–	
Cash flow from operating activities	**60.0**	**36.2**	–39.6%
Investments[5]	–52.4	–79.1	
Free cash flow[6]	**7.6**	**–42.9**	

[1] FY 2020/21: April 1, 2020, to March 31, 2021; FY 2021/22: April 1, 2021 to March 31, 2022
[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 in property, plant and equipment and intangible assets
[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, biotech, 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 sustainably. 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.
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DOTTIKON ES HOLDING AG is listed on the SIX Swiss Exchange.
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