



Ad hoc announcement pursuant to article 53 LR of the SIX Swiss Exchange

DOTTIKON ES – Rising Energy and Raw Material Prices Put Pressure on EBITDA Margin

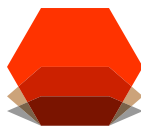
Dottikon, Switzerland, November 29, 2022 – DOTTIKON ES Group, positioned as strategic development and manufacturing partner and specialized in the area of hazardous reactions and the exclusive synthesis of active pharmaceutical ingredients (API) and fine chemicals, closed its first business half-year 2022/23 on September 30, 2022.

As already published in a brief media release on October 21, 2022, net sales increased by 31.4 percent to CHF 133.8 million in the first business half-year. The strong growth and the accompanying increase in production output are broad-based in terms of products and customers. Compared to the previous-year period, material expenses more than doubled and increased overproportionately due to a significant rise in energy and raw material prices. Personnel expenses also rose due to higher salaries and a staff buildup. In combination with higher costs and prices for the excavation and disposal of burdened soil, the EBITDA margin decreased to 35.2 percent from the previous-year period's 37.7 percent. Net income, however, increased overproportionately to CHF 38.9 million (previous-year period: CHF 23.9 million) due to the newly applicable reduced income tax rate and the extraordinary income because of a one-time revaluation of deferred tax liabilities.

Assessment of situation

As a result of what is apparent to become a Russian attrition war in Ukraine, the tripolar world order is accentuating into a two-pole northern West-East split-up between the two strong opponents for world supremacy, the United States and China. The armed conflict and threat at the eastern border have forced Europe to position and orient themselves more toward the United States. Due to severe military failures and economic sanctions, Russia is weakened and increasingly isolated and loses political traction. This, in turn, is freeing up forces of the United States to focus increasingly on China in the Indo-Pacific region, its real competitor for dominance in the international order. According to the United States' National Security Strategy report, China is the only competitor in the world that not only has the intention to reshape the world order, but also has the economic, diplomatic, military, and technological power to do so. The United States view the coming ten years as the self-declared decisive decade in this matter.

According to forecasts by the International Monetary Fund (IMF), global economic growth will almost halve in 2022 compared to 2021 and is set to weaken further in 2023. The remaining growth expected by the IMF will be as weak as last seen 20 years ago. For the first time, all three of the largest economic regions – the United States, Europe, and China – will be significantly weaker at the same time. Whether this still rather benign scenario will become a reality depends primarily on the actions of central banks and governments, as measures to fight inflation and consumer costs cancel each other out. In other words, a targeted weakening of economic demand by reducing the money supply through interest rate hikes to curb inflation cannot take place at the same time as states are subsidizing loss of purchasing power by increasing government debt levels. In essence, the IMF forecast mentioned earlier has two opposing risk scenarios: either an end with fright because of overly fast and high interest rate hikes by central banks – or fright without end because of excessive state-sponsored strengthening of demand and thus systemic anchoring of inflation.



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CO₂ emissions are the product of population size multiplied by prosperity (economic output), energy efficiency (amount of energy required per activity), and CO₂ intensity (amount of CO₂ emitted per usable energy unit). Technological progress can improve energy efficiency and CO₂ intensity. The most important drivers, however, remain population size and degree of prosperity. A growing population with increasing prosperity leads to high energy and material consumption and therefore to significant entropy increase (cf. the term "entropy" as defined in the second law of thermodynamics) and as a result to more disorder or destruction. If the functioning social structures with population growth and increasing prosperity are to be maintained, we will have to accept the associated increase in entropy. The challenge lies in the sustainable organization of this entropy increase. With the decommissioning of coal and nuclear power plants and the delayed expansion of new power generation facilities, the low-snow winters, hot and dry summers, as well as reduced gas supply volumes from Russia, the risk of gas and electricity shortages in Europe – and therefore also in Switzerland – has increased significantly. Gas and electricity prices rose steeply as a result. Since the expansion and building of sufficient new alternative energy generators and energy storage capacities as well as the corresponding infrastructure to close the energy supply gaps will take at least another 15 years, gas and electricity shortages, along with high electricity prices, are to be expected repeatedly in the coming years, especially in winter. It is therefore pivotal to secure energy supply by creating a political framework that does not hinder the economy from providing the necessary energy with excessive bureaucracy.

The next 10 to 15 years will be a battle for energy to establish militarily secured economic supremacy for the preservation of prosperity, democracy, and freedom. It is about the economic unbundling of the northern West from the East, which requires a resettlement of energy-intensive and environmentally challenging industries that were carelessly outsourced in the past. This structural change will at first require a lot of energy and will be expensive. It should therefore be carried out as entropy-efficiently and economically as possible so that long-term sustainability aspirations are not compromised but may still be financed in the future. Thus, the following principles, simplified and listed according to their priority, apply: (1) more efficient and longer use of existing structures; (2) recycling and reuse of existing structures at high value levels; and (3) focus on more sustainable approaches when expanding or replacing existing structures with new ones.

A sustainable, entropy-efficient energy transition – the entropy transition (according to Prof. Dr. J. Michael Köhler) – first requires time to unbundle geopolitical ties to the East, while dealing with major economic distortions at the same time. In more specific terms, this means the immediate construction of oil/gas-combined cycle power plants to bridge the recurring energy shortages in the winter in the short and medium term. Existing structures shall continue to be operated efficiently and safely as long as possible. This includes the continued operation of existing nuclear power plants and the expansion of hydropower plants, especially with pumped storage, as well as the construction of new sustainable energy generators at advantageous locations in terms of generation and existing distribution infrastructure, for example alpine photovoltaic plants at pumped-storage hydropower plants or new hydro, wind, and nuclear power plants. These must be promoted, taking into account the favorable generation and distribution costs.

In the event of a major armed or economic escalation between the geopolitical 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. This threat



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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 anchoring and proximity form 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 North America. Only those who explore, mine, extract, and manufacture will have unrestricted access to goods.

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 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 declining purchasing power, sales volumes will fall, and access to drugs will become more limited. Over the last five years, global drug sales grew by around 7 percent annually. For the coming five years, weaker annual growth rates of 4 to 5 percent are expected. The annual growth outlook for the segment of patent-protected innovative drugs, however, is 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. In 2021, the US Food and Drug Administration (FDA) approved 50 new drugs (2020: 53), 72 percent (previous year: 75 percent) of which were small molecules and 74 percent (previous year: 68 percent) were expedited reviews for approval. The European Medicines Agency, meanwhile, approved 54 new drugs in 2021, one fewer than a year before. 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 all contributed to the high number of drug candidates and novel drug approvals over the last few years. Due to the well-furnished biotech/pharma pipelines, analysts have estimated until now that around 55 to 65 new drugs per year would be approved worldwide over the next five years. Over the last five years, the average was 25 new drugs per half-year. However, in the first three quarters of this year, the FDA only approved 26 new drugs, 19 of which in the first half of 2022. Over the last two half-year periods, the number of new drug approvals declined by 20 percent each compared to the previous period. The reasons are assumed to be delayed clinical studies and thus regulatory filings because of the pandemic as well as staff shortages and management changes at the FDA. It remains to be seen whether this trend will continue against the background of geopolitical changes, rising inflation, and interest rate hikes. For the coming years, biotechs still dispose of sufficient financial resources to drive the business forward operationally and strategically, even though raising new funds has become more challenging. However, in a prolonged period of tense financial market conditions, weaker pipeline growth and lower approval rates are to be expected. 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 APIs. Consequently, the need and demand for high-quality development and manufacturing capacities continue to rise, increasingly resulting in shortages in available chemical process development and production capacities. This holds particularly true for small molecules, as regional demand for chemical development and manufacturing capacities from other industries is also on the rise due to the current geopolitical change. These generally positive market dynamics for Customer Development and Manufacturing Organizations (CDMOs) may be significantly hampered by the developments described before. The greatest risk factors are a lack of energy and electricity supply, resulting in less readily available raw materials or equipment, as well as a declining level of information and organization, the drying up of financial inflows, and a reduction of health care costs through stricter government price regulation.

Review

DOTTIKON ES started preparing for the expected increase in demand for chemical development and manufacturing capacities related to steadily increasing regulatory requirements, 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. The current third phase focuses on the construction of new chemical production and drying plants for APIs, new warehouse capacities, and infrastructure expansion. In addition, it is important to secure the energy supply in the short, medium, and long term.

In the first business half-year, net sales of DOTTIKON ES were CHF 133.8 million, up 31.4 percent compared to the previous-year period. The strong growth and the accompanying rise in production output were broad-based in terms of products and customers. The production output for the first business half-year – net sales plus inventory changes in semi-finished and finished goods – thus rose by 37.6 percent compared to the previous-year period. Material expenses doubled compared to the previous-year period to CHF 53.9 million and represented 34.1 percent of the production output, which, due to the steep rise in energy and raw material prices, was 10.8 percentage points or 46.4 percent higher. Compared to the previous-year period, personnel expenses rose by 3.5 percent to CHF 40.1 million due to higher salaries and a staff buildup. In combination with other operating expenses, which were up CHF 6.3 million (41.4 percent) compared to the previous-year period mainly because of ongoing costs and provisions made for the excavation of burdened soil and changes in regulatory requirements that came into effect at the beginning of the year as well as higher disposal costs, EBITDA grew underproportionately compared to net sales and was CHF 47.1 million, 22.6 percent higher than in the previous-year period, with a lower EBITDA margin of 35.2 percent (previous-year period: 37.7 percent). With depreciation and amortization of CHF 9.5 million, EBIT was CHF 37.5 million, 34.9 percent above the previous-year period's figure, with an EBIT margin of 28.0 percent (previous-year period: 27.3 percent). After the financial result and the lower income taxes due to the newly applicable reduced income tax rate and the extraordinary income due to a one-time revaluation of deferred tax liabilities, net income was CHF 38.9 million (previous-year period: CHF 23.9 million), 62.8 percent higher than in the previous-year period, with a net income margin of 29.1 percent (previous-year period: 23.5 percent).



Cash flow from operating activities rose from CHF 12.0 million in the previous-year period to CHF 49.4 million, mainly due to the higher net income and higher customer payments. Investments increased strongly in the first business half-year to CHF 93.5 million. Cash outflows from investments in property, plant and equipment and intangible assets were CHF 52.2 million, a strong 122.5 percent increase over the previous-year period. At the end of the reporting period, cash and cash equivalents and current financial assets were CHF 234.0 million. The equity ratio declined from 83.3 percent to 76.5 percent, mainly due to accruals from plants under construction and the new financial liabilities of CHF 30 million.

Outlook

Expansion and buildup of new manufacturing capacities and infrastructure for ongoing growth continues. Over the coming 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). 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. The construction of a new API drying plant as well as the new chemical multipurpose production plant are progressing as planned, and the plants will become operational in 2024 and 2025, respectively. Building construction is already well advanced and the first interior installations are taking shape. Once the company's own photovoltaic plant on the new raw materials warehouse currently under construction becomes operational, DOTTIKON ES will generate up to 5 percent of the annual electricity consumption on-site. With the planned commissioning of its own back-up electricity supply plant in 2024/25, DOTTIKON ES will become able to cover its full electricity consumption on-site in compliance with the Clean Air Ordinance over longer time periods in the event of emergency.

The 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.

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 2021/22	HY 2021/22	HY 2022/23
Net sales	251.9	101.8	133.8
EBITDA¹	88.8	38.4	47.1
<i>EBITDA margin (in % of net sales)</i>	<i>35.2%</i>	<i>37.7%</i>	<i>35.2%</i>
EBIT²	67.7	27.8	37.5
<i>EBIT margin (in % of net sales)</i>	<i>26.9%</i>	<i>27.3%</i>	<i>28.0%</i>
Net income	59.3	23.9	38.9
<i>Net income margin (in % of net sales)</i>	<i>23.5%</i>	<i>23.5%</i>	<i>29.1%</i>
Cash flow from operating activities	36.2	12.0	49.4
Investments ³	-79.1	-23.4	-52.2
Free cash flow⁴	-42.9	-11.4	-2.8

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 in property, plant and equipment and intangible assets

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, 2021, to March 31, 2022

HY: business half-year from April 1 to September 30

The Annual Report 2022/23, covering the period from April 1, 2022, to March 31, 2023, will be presented on May 31, 2023.



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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. 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.

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

Symbol: DESN

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