MEDIA RELEASE Dottikon, May 31, 2023

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

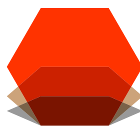
DOTTIKON ES – Strong Annual Result, Investments in Further Growth

Dottikon, Switzerland, May 31, 2023 – 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 2022/23 on March 31, 2023.

- Net sales CHF 319.5 million, +26.8 percent compared to the previous year (PY)
- EBITDA at CHF 116.6 million, +31.3 percent
  - EBITDA margin of 36.5 percent (PY: 35.2 percent)
- EBIT at CHF 96.0 million, +41.9 percent
  - EBIT margin of 30.0 percent (PY: 26.9 percent)
- Net income of CHF 87.7 million, +47.9 percent
  - Net income margin of 27.5 percent (PY: 23.5 percent)
- Cash flow from operating activities CHF 89.5 million (PY: CHF 36.2 million)
- Cash outflows from investments CHF 136.4 million (PY: CHF 79.1 million)
- The Board of Directors proposes to the Annual General Meeting of July 7, 2023
  - 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

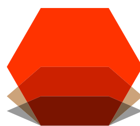
Review

At CHF 319.5 million, net sales of DOTTIKON ES in the business year 2022/23 were 26.8 percent higher than in the previous year and were broad-based in terms of products and customers. Semi-finished and finished goods increased by CHF 11.2 million. Other operating income rose to CHF 9.3 million, primarily driven by higher capitalized own production as a direct result from higher investments in new production capacities and infrastructure. At CHF 102.6 million, material expenses were up 28.3 percent compared to the previous year and represented 31.0 percent of the production output – net sales plus inventory changes in semi-finished and finished goods – and rose by another 2.3 percentage points compared to the previous year due to higher raw material costs. Personnel expenses rose by 3.8 percent to CHF 82.0 million in the business year 2022/23. The average staff number increased by 2.0 percent to 678 full-time equivalents, with the remainder of the increase in personnel expenses being attributable to higher salaries. In combination with other operating expenses of CHF 38.8 million, nearly unchanged compared to the previous year, EBITDA was CHF 116.6 million, up 31.3 percent, with an EBITDA margin of 36.5 percent (previous year: 35.2 percent). At CHF 20.6 million, depreciation and amortization was slightly below the previous-year figure. Compared to the previous year, EBIT rose by 41.9 percent to CHF 96.0 million, with an EBIT margin of 30.0 percent (previous year: 26.9 percent). At CHF –2.0 million, the financial result was CHF 3.7 million below the previous year's figure due to lower employer contribution reserve valuations as a result of negative financial asset returns in the pension fund (previous year: higher valuations as a result of positive financial asset returns). After the result of



associated companies and lower income taxes related to the newly applicable reduced income tax rate in the business year 2022/23 and the related extraordinary effect of a one-time revaluation of deferred tax liabilities, net income was CHF 87.7 million (previous year: CHF 59.3 million), 47.9 percent above the previous year's figure, with a net income margin of 27.5 percent (previous year: 23.5 percent).
Cash flow from operating activities rose by CHF 53.3 million to CHF 89.5 million, mainly due to the higher net income and a less pronounced inventory buildup compared to the previous year. In the previous year, the buildup was significantly higher because of higher inventory levels to ensure availability. Cash outflows from high investment activities was CHF 136.4 million in the reporting period, representing another strong increase of 72.5 percent or CHF 57.3 million compared to the previous year. Additions to property, plant and equipment was CHF 180 million in the business year 2022/23. At around CHF 1'054 million, total assets broke the CHF 1 billion threshold for the first time in the company's 110-year history. At the end of the business year, long-term interest-bearing financial liabilities amounted to CHF 60 million, the respective interest expense in the reporting period was CHF 0.3 million. The equity ratio was at 76.2 percent. Cash and cash equivalents and current financial assets were CHF 219.2 million at the end of the reporting period.

Geopolitical and economic assessment of situation
As a result of the Russian attrition war in Ukraine as well as Russia's economic isolation and approximation to China, the hitherto tripolar world order increasingly transforms into a dipolar one – the United States versus China. This new world order is characterized by geopolitical tension between the United States and China in the struggle to secure world supremacy. Both sides strive to build and expand their respective alliances and partnerships in this conflict. US Americans and Europeans have grown closer as a result of their similar interests in the war over Ukraine. China, meanwhile, is trying to prevent a unified EU geopolitical strategy by cleverly exploiting the attitude of the large EU states, which is characterized by economic and opportunistic self-interest.
According to the United States, 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 views the coming ten years as decisive in preventing Chinese dominance. To this end, the United States will implement and enforce this national security strategy unconditionally, even at the cost of economic sacrifices. Export controls and bans to China and the subsidy of domestic production to invigorate the United States' competitiveness – for example in the tech sector for high performance chips – are merely a first step towards the United States' decoupling and disentanglement from China. Respective Chinese countermeasures to weaken the United States and its allies have been observed for quite some time now. China has its eyes set on dominating world politics by 2049. As early as 2013, China has introduced its dual circulation strategy to reach technological self-reliance and independence from the West, its self-proclaimed ideological enemy. China is developing into the world's largest economy, with a population four times larger than that of the United States and a robust industry built on a broad-based scientific and technological foundation that the world needs to reckon with. Roughly



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two-thirds of all countries in the world trade more with China than with the United States. The declining efficiency of massive state investments in infrastructure development and declining productivity have led to massive debt accumulation by local and regional governments as well as state-owned enterprises in China. The slowdown in global economic growth due to persistently high inflation and resulting interest rate increases in Europe and the United States have also recently weighed on demand for Chinese goods.
Growing geopolitical tension and the painful experience of supply chain disruptions during the COVID-19 pandemic or the war in Ukraine with related sanctions against Russia put the focus of decoupling from China well ahead of Europeans' sustainability efforts, especially in the United States. In the event of an armed conflict and economic escalation, the high degree of specialization, concentration, and organization of the global value chains and their segments bear an immense potential for economic, technological, and cultural loss. This threat awakens the need for a reduction in geopolitical dependence and a corresponding realignment of interest linkages. For this reason, the material financial, or at least the material economic, disentanglement between rival parties is mutually pursued and promoted. Implementing the respective steps is a demanding, lengthy, and costly process, especially for globally positioned large companies. Values such as consistency, trust, and reliability as well as cultural regional anchoring and 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. The value chains for sensitive goods are given a strategically broader regional base in the interest of achieving greater supply security. This also means that the more energy- and CO_2-intense production steps, formerly outsourced to the East, will increasingly have to be relocated to the West again – despite higher production costs and inevitably higher prices. For the coming decade, therefore, reindustrialization – and hence the demand for (fossil) energy – will increase substantially in Europe and North America. Only those who explore, mine, extract, and manufacture will have unrestricted access to goods – and these are energy-intensive steps. Against this background, the reduction of its value chain's dependence on China has become a strategic priority for US companies as well, and they aim to achieve it primarily through decoupling and geographic diversification. Due to the absence of a unified geopolitical strategy within the EU to date, this realization has not yet taken hold to the same extent among European companies. To make matters worse, the decoupling and the energy transition – two aspects that result in higher consumer prices – have to take place in an environment marked by already high (core) inflation and therefore rising interest rates. The rapid interest rate hikes by national banks have already led to initial distortions among banks this year due to a loss of confidence. With governmental rescue operations, the situation has been briefly calmed down, but the underlying danger is not averted. Going forward, the central banks' room for maneuver for further interest rate hikes is limited because banks are apparently exposed to more widespread risks than previously assumed due to large maturity gaps between assets and liabilities. Should inflation remain at high levels due to rising consumer prices, interest rate policies become a balancing act between counteracting a loss of prosperity due to asset devaluation and declining purchasing power or financial and thus economic crises as a result of a loss of confidence in interest-exposed banks and deficit-ridden countries.

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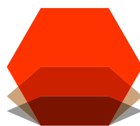
Biopharmaceutical market
Demographic developments of an increasingly aging population with the associated rise in drug demand especially in developed countries with high purchasing power, the accelerated market approvals for novel drugs, the growth of biosimilars as well as government attempts to reduce drug prices and health care costs remain key medium- and long-term volume growth and innovation drivers in the biopharma market. In addition, the demographic trend ensures stable fundamental volume growth in the long term. In the medium term, expected global annual sales volume growth stands at around 2 percent, which roughly corresponds to the growth in population of those over 65 years old. Health care expenditures for over 65-year-olds are roughly three times higher than for those of normal working age. By 2050, the number of over 60-year-olds will double worldwide, and the number of 80-year-olds will even triple. Global life expectancy will continue to rise, not least thanks to progress in the treatment of cancer, the second most common cause of death worldwide. Today, half of the world's population already consumes more than one drug dose per day. Most indications have shown annual volume growth rates over the last ten years. With volume growth of over 15 percent annually, however, oncology was by far the fastest growing indication. In 2021 and 2022, due to COVID-19, global drug sales growth was at 7 to 8 percent above average. For the coming five years, expected annual growth rates are more moderate with 3 to 6 percent. Within the coming five years, the drug sales market is set to rise to CHF 1'700 billion. The main factors here are the number of new innovative drugs, the patent and exclusivity expiries of key drugs, the market penetration and growth of biosimilars and generics, and the increasing cost pressure from new regulations to contain health care cost increases in a weakening economic environment. Sales growth expectations for drugs will therefore vary depending on the respective influencing factors and regions. The largest drug sales market – the United States with a market share of over 40 percent – will only grow by less than 2 percent annually overall due to increased deductions and discounts on drug list prices in the coming years as a result of new regulations such as the Inflation Reduction Act (IRA). Changes in the use of drugs, adaptations of new treatments, patent expiries, and competition from generics and biosimilars also contribute to the historically weak US market growth. The expected annual growth rates for Europe are 5 to 6 percent, for China 2 to 5 percent, and for Japan nearly zero.
One layer deeper, some market segments, as illustrated here on the example of the United States, show vastly different dynamics. Sales with already introduced but still patent-protected drugs will likely rise by more than CHF 140 billion over the coming five years – over 25 percent more than over the last five years. Over the same time span, new approvals of around 250 innovative drugs are forecast, including around 100 new cancer drugs alone, with estimated sales of around CHF 100 billion. This growth of around CHF 240 billion contrasts with a decline in sales due to loss of exclusivity for important drugs of around CHF 130 billion, over 185 percent more than in the previous five-year period. In addition, deductions and discounts on US list prices are expected to increase on average from about 35 percent today to around 45 percent by the end of the period. This is because the IRA legislative package requires, among other things, biopharmaceutical companies to grant discounts if drug prices have been increased by more than inflation, and newly allows the Centers for Medicare & Medicaid Services (CMS), the purchasing



organization of the national health insurer Medicare, to negotiate prices with biopharma companies in certain cases for drugs that are in particularly high demand if their market approval already dates back nine years for small molecules (so-called active pharmaceutical ingredients or APIs) or 13 years for biotechnological drugs (biologics). In a first step, 10 drugs will be affected by this from 2026.

Generics and biosimilars represent about 90 percent of the global drug market volume, with patent-protected innovative drugs accounting for the remaining 10 percent. The latter, however, account for 60 percent of the drug sales market. If we consider only the developed biopharma markets, patent-protected innovative drugs account for 75 percent of sales. In other words, around 90 percent of patent-protected innovative drugs are sold in developed biopharma markets. This comprises a market volume of around CHF 720 billion, which is expected to grow at annual growth rates of 3 to 6 percent by CHF 180 to 230 billion to more than CHF 900 billion over the next five years. Small molecule drugs accounted for around 65 percent of global sales in 2022, followed by biologics at around 30 percent. The sales market share of biologics is expected to increase to around 35 percent over the next five years. The global sales share of specialty drugs, medicines for chronic, complex, and rare diseases, accounts for around 40 percent, with the sales share for developed biopharma markets being 5 to 15 percentage points higher. Oncology is and remains the largest indication area, with a sales market share of around 20 percent and annual growth rates of around 13 to 16 percent. Oncology drug sales will almost double over the next five years with an increase of around CHF 165 billion.

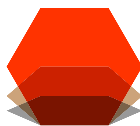
In 2022, the US Food and Drug Administration (FDA) approved 37 (previous year: 50) new drugs in the United States, 59 percent (previous year: 72 percent) of which were small molecules and 65 percent (previous year: 74 percent) were expedited reviews for approval. Worldwide, 64 (previous year: 93) new drugs were approved. The decline is mostly linked to a decrease in the number of COVID-19 drug approvals, fewer first approvals in China and fewer expedited approvals in the United States. More than two thirds of the new drugs approved in 2022 came from biotech companies, and around 70 percent of these drugs were launched by the biotech companies themselves. The current market environment of rising interest rates, falling biotech company valuations and hence more difficulty for them to raise capital likely favors the established biopharma companies. They will use the lower valuations for acquisitions and in-licensing of innovative drug candidates to refresh their development pipelines. Based on the well-furnished biopharma pipeline, around 250 new APIs are expected to be approved worldwide in the next five years. At the beginning of 2022, the biopharma pipeline contained around 20'100 novel drug candidates in the development phase, 8 percent more than in the previous year. The number of candidates in phase III, in comparison, even rose by 9 percent to over 1'100 compared to the previous year, while those in the earlier clinical development phase II rose by 6 percent to over 2'900. Half of all novel drug candidates in the development pipeline are small molecules, and 39 percent are for oncology indications.

The improved molecular biological understanding of the human metabolism and the improved early scientific selection of working drug candidates, the accelerated market approval, and attractive growth and return prospects for innovative drugs will all contribute to an increased

number of novel drug candidates and new drug approvals in the coming few years. 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. In combination with the cross-industry repatriation described earlier, this results in higher demand for high-quality, technologically versatile chemical process development and production capacities for drug substances in the medium to long term. This holds particularly true for APIs, as regional demand for chemical development and production capacities also from other industries is on the rise due to the current geopolitical situation.

Outlook

DOTTIKON ES started preparing for the expected increase in demand for chemical development and manufacturing capacities related to stricter 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. In the current third phase, DOTTIKON ES focuses on the construction of new chemical production and drying plants for APIs, new warehouse capacities, and infrastructure. In addition, it is important to secure the energy supply in the short, medium, and long term. DOTTIKON ES' own photovoltaic system on the roof of the new raw materials warehouse, which went into operation in the last business year, generates up to 5 percent of the company's annual electricity consumption on-site. With the new backup electricity supply plant compliant with the Ordinance on Air Pollution Control, scheduled to become operational in 2024/25, DOTTIKON ES will become able to cover its full electricity consumption on-site over longer time periods in the event of electricity shortages. DOTTIKON ES invests a total of 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 production site in Dottikon (Aargau, Switzerland). The new API drying plant and the new chemical multipurpose production plant will become operational in 2024 and 2025, respectively, followed by the new API pilot plant. This will almost double the available high-quality production capacity at the site and allows to capture disproportionally high market growth in the custom synthesis of innovative patent-protected APIs. For the ongoing full business year 2023/24, investments will remain high. 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. 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 110 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, as well as reduce energy consumption, waste, and CO_2 emissions 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.

The small molecule biopharma 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 2023/24, DOTTIKON ES expects net sales above the previous year's figure and ongoing strong growth in the medium term.

Key Figures DOTTIKON ES Group

CHF million	**FY[1] 2021/22**	**FY[1] 2022/23**	**Changes**
Net sales	**251.9**	**319.5**	+26.8%
Changes in semi-finished and finished goods	26.7	11.2	
Other operating income	8.0	9.3	
Material expenses	–80.0	–102.6	
Personnel expenses	–79.0	–82.0	
Other operating expenses	–38.8	–38.8	
EBITDA[2]	**88.8**	**116.6**	+31.3%
EBITDA margin (in % of net sales)	*35.2%*	*36.5%*	
Depreciation and amortization	–21.1	–20.6	
EBIT[3]	**67.7**	**96.0**	+41.9%
EBIT margin (in % of net sales)	*26.9%*	*30.0%*	
Financial result[4]	2.0	–1.8	
Income taxes	–10.4	–6.5	
Net income	**59.3**	**87.7**	+47.9%
Net income margin (in % of net sales)	*23.5%*	*27.5%*	
Proposed dividend per share (in CHF)	–	–	
Cash flow from operating activities	**36.2**	**89.5**	+147.2%
Investments[5]	–79.1	–136.4	
Free cash flow[6]	**–42.9**	**–46.9**	

[1] FY 2021/22: April 1, 2021, to March 31, 2022; FY 2022/23: April 1, 2022 to March 31, 2023
[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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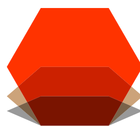

DOTTIKON ES manufactures high-quality performance chemicals, intermediates, and exclusive active pharmaceutical ingredients (APIs) for the world's leading chemical, biotech, and pharmaceutical industry. The company with its production site in Dottikon (Aargau, Switzerland) is specialized in hazardous reactions and positions itself as strategic development and manufacturing partner and performance leader. Its safety culture created over the past 110 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, as well as reduce energy consumption, waste, and CO_2 emissions 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
Security number: 58258171
ISIN: CH0582581713

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