dottikon

MEDIA RELEASE

Dottikon, November 28, 2023

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

DOTTIKON ES – Increase in Net Sales and Operating Profit

Dottikon, Switzerland, November 28, 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 first business half-year 2023/24 on September 30, 2023.

- Net sales: CHF 152.6 million, +14.0 percent compared to the previous-year period (PY)
- EBITDA: CHF 52.6 million, +11.8 percent
  - EBITDA margin: 34.5 percent (PY: 35.2 percent)
- EBIT: CHF 42.6 million, +13.5 percent
  - EBIT margin: 27.9 percent (PY: 28.0 percent)
- Net income before taxes: CHF 42.9 million, +15.7 percent
- Net income: CHF 37.4 million, –4.0 percent, due to an extraordinary tax income in the previous-year period
  - Net income margin: 24.5 percent (PY: 29.1 percent)

At CHF 152.6 million, net sales in the first business half-year 2023/24 were 14.0 percent higher than in the previous-year period and were broad-based in terms of products and customers. The production output – net sales plus inventory changes in semi-finished and finished goods – was 2 percent lower in the first business half-year 2023/24, taking into account the higher materials share related to the product mix in the previous-year period, which was up 5.5 percentage points or CHF 8.7 million. This demonstrates the high utilization of the existing plants and the necessity of the new plants currently under construction for additional capacity to continue the growth path hitherto. Material expenses were down 22.7 percent compared to the previous-year period at CHF 41.7 million (previous-year period: CHF 53.9 million) due to a less material-intense product mix and accounted for 28.5 percent (previous-year period: 34.1 percent) of the production output. Personnel expenses rose by 6.5 percent to CHF 42.7 million compared to the previous-year period due to higher salaries and a 3.6 percent increase in the average staff number. In combination with other operating expenses of CHF 7.9 million below the previous-year period's figure, mainly due to higher costs and provisions made for the disposal of burdened soil in the previous-year period, EBITDA was 11.8 percent higher at CHF 52.6 million (previous-year period: CHF 47.1 million), with a lower EBITDA margin of 34.5 percent (previous-year period: 35.2 percent). Without the two effects of the more material-intense product mix and the disposal of burdened soil in the previous-year period, the EBITDA margin in relation to the production output was comparable with the previous-year period. With depreciation and amortization of around CHF 10 million, EBIT was CHF 42.6 million, 13.5 percent above the previous-year period, with an EBIT margin of 27.9 percent (previous-year period: 28.0 percent). After the financial result, net income before taxes was CHF 42.9 million (previous-year period: 37.1 million), 15.7 percent above the previous-year period. The lower income taxes in the previous year due to the newly applicable reduced income tax rate and the related extraordinary income due to a one-time revaluation of deferred tax liabilities resulted in a net income of CHF 37.4 million (previous-year period: CHF 38.9 million), 4.0 percent lower than in the previous-year period, with a net income margin of 24.5 percent (previous-year

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period: 29.1 percent). Without the extraordinary income effect, the previous-year period's net income margin would have been 24.2 percent.
Cash flow from operating activities was CHF 50.0 million, slightly above the previous-year period. Property, plant and equipment rose by CHF 91.2 million in the first business half-year as a result of ongoing strong investments. Cash outflows from investment activities were CHF 72.4 million, up 39 percent compared to the previous-year period. Cash and cash equivalents and current financial assets were up CHF 16.9 million in the reporting period and were CHF 236.2 million at the end of the first business half-year. As planned, a further CHF 40 million of the committed bank loans were drawn and attributed to the non-current financial liabilities in the reporting period. Shareholders' equity was up CHF 38.6 million at CHF 841.6 million in the reporting period, while the equity ratio was down from 76.2 percent to 71.8 percent, mainly due to an increase in financial liabilities, higher accruals, and higher trade payables, the two latter ones mainly related to the plants under construction.
For the ongoing full business year 2023/24, DOTTIKON ES expects net sales above the previous year's figure. Expansion and buildup of new manufacturing capacities and infrastructure for ongoing growth continues. The construction of the new drying and chemical multipurpose production plants for APIs progresses according to plan. The plants will become operational in 2024 and 2025. The building construction is largely complete, and the interior installations are progressing.

Assessment of situation
The dipolar world order has solidified and is shaping the geopolitical tensions caused by the struggle between the United States and China to secure future world supremacy. The alliance partnerships accentuated by the war in Ukraine, have further intensified both on the US side and the Chinese side as a result of the Hamas attack on Israel. Europe seems to be becoming increasingly aware of the existential necessity of an explicit commitment to its US alliance and a clear political distance to China. At the same time, an unholy alliance is forming around China with Russia, North Korea, and Iran. This alliance focuses on the mutual exchange of military weapons and technology with the sole common purpose of challenging and fighting the United States' hegemonial power. With its path of investment diplomacy, China has expanded and strengthened its influence. Developing nations with key raw material reserves were actively tied to China and are now being used to expand the military and geopolitical power zone to create an alternative world order with China at the top. 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. The struggle to defend and expand their political and military power is costly and time-consuming for both sides, especially in times when political upheavals and the outbreak of new military conflicts seem to be the order of the day. All this in an environment of an increasingly apparent global economic downturn of potentially monstrous proportions due to record-high government debt, high inflation rates, rising interest rates and migration waves, as well as the negligent shutdowns and conversion of energy infrastructure in Europe as part of the energy transition

combined with the simultaneous neglect of a buildup of new infrastructure. The latter is leading to an industrial exodus, particularly in Europe, and an increase in the already high dependence on China. Paradoxically enough, immense subsidy packages are being made available in both the United States and in Europe to allegedly increase supply security, promote domestic industry, reduce dependence on foreign countries and implement climate policies. In the end, most of these subsidies end up in the pockets of Chinese suppliers, who can increase their prices thanks to these subsidies.

The United States' public debt has increased four-fold over the last ten years and grew by 50 percent in the last four years alone. By now, public debt represents more than 120 percent of the nation's gross domestic product (GDP). The expected 10-year Treasury yield in the US is now nearly 5 percent. The mean value of EU member state government debt is 84 percent of GDP. The money supply caused by high government debt has led to high inflation and forced the national banks to raise their key interest rates in rapid succession to a level that takes a heavy toll on the national budget of countries with high debt levels in case of due replacements or a further increase of debt. At the same time, despite the forecasts, inflation remains at high levels due to an increase in structural costs as a result of the politically enforced energy transition in combination with the war in Ukraine and excessive bureaucracy and overregulation, net-zero targets for greenhouse gas emissions, and the elimination of self-regulating market forces. In combination with the efforts to disentangle geopolitical ties and reduce the related risk and high dependence on China, which are being strategically promoted by the United States and are now also increasing in the EU, inflation is more and more a result of a further increase in structural costs. To combat the latter, interest rate hikes are not as effective as they are in case of purely money-supply related inflation. Chinese exports are declining on the back of the described geopolitical disentanglement. At the same time, a real estate crisis is brewing in China. This sector was China's most important growth driver in the past. In order to counteract speculation, the Chinese government has restricted financing options for real estate developers and buyers. Some large real estate developers are now faltering on the back of this development or have already gone bankrupt. As the majority of financing was provided by domestic banks, this, together with the general economic slowdown, may also lead to a Chinese banking crisis. Officially, China's debt is 70 percent of GDP, but when local government financing vehicles are taken into account, the debt rate is around 100 percent of GDP. This development will adversely affect Chinese consumption and further weaken China's, but also the world's, economic growth rates. According to IMF estimates, China contributes 35 percent to global economic growth.

The central banks face the dilemma that excessively high interest rate hikes will lead to a hard landing and drive heavily indebted governments further into the debt trap. Overly low interest rates, on the other hand, prevent central banks from curbing inflation, which will result in a loss of wealth and in social tension. The current higher interest rates are already slowly, but steadily shedding a light on the risks that have built up on real estate and banking balance sheets over the past years. If a critical number of market participants becomes aware of these risks, this will quickly turn into a wildfire and result in a major financial crisis.

Against this background, a global economic slump is to be expected, with lasting high interest rates and inflation or rather higher intrinsic structural costs. Given the economic and political challenges the two rivals face, neither the United States nor China have an interest in an immediate military escalation in the South China Sea. Despite a tense economic environment and higher costs, this time must be used to further disentangle dependencies and thus reduce the geopolitical risks in the value chains.

Biopharma 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- to long-term volume growth and innovation drivers in the biopharma market. In the medium term, expected global annual volume sales growth still stands at around 2 percent, which roughly corresponds to the growth in population of those over 65 years old. 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. High-income regions with established health care systems, such as the United States, Western Europe, and Japan, will have significantly lower volume growth due to moderate population growth with already saturated access to drugs. India, on the other hand, along with other nations in Asia, Latin America, Africa, and the Middle East, will clearly outgrow the global market in terms of volume, driven by population growth and increasingly better access to drugs. Most indications have shown annual volume growth rates over the past ten years. Within the coming five years, the drug sales market is estimated to rise to CHF 1'700 billion. Sales growth is expected to vary depending on the region and the prevalent influencing factors. The largest drug sales market – the United States with a market share of over 40 percent – will grow by less than 2 percent annually overall due to changes in the use of drugs, new treatment methods, patent expiries with competition from generics and biosimilars, as well as 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). The expected annual growth rates for Europe are 5 to 6 percent, for China 2 to 5 percent, and for Japan nearly zero.

Sales with already introduced but still patent-protected drugs and new drug approvals will likely rise by more than CHF 240 billion over the coming five years. This growth is offset by a decline in sales due to the loss of exclusivity of important drugs of CHF 130 billion. The IRA leads to a development reprioritization with a view to the targeted indication areas. The approach favored by biotechs to date of initially gaining market access with small indications with lower costs and then move into the larger, but more cost intensive ones, is now put into question given the lower return perspective after 9 years for small molecules and 13 years for biologics and the impact this has on company valuations.

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, 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 between CHF 180 billion and CHF 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 30 percent. The sales market share of biologics is expected to increase to around 35 percent over the next five years. After four consecutive half-years with decreasing numbers for FDA new drug approvals, the negative trend came to a halt. New drug approvals for the first half of 2023 were increasing again, and this trend reversal appears to continue in the second half. Following 35 market approvals granted until the third quarter, a total of 55 new market approvals are expected for the full year 2023.
In the current market environment of rising interest rates and hence more difficulties to raise capital as well as lower biotech corporate valuations, market activity is shifting increasingly in favor of established biopharma companies. These companies use the lower valuations for acquisitions and in-licensing of innovative drug candidates to refresh their development pipelines. Biotechs with products only in the Preclinical or Phase I stages face increased headwind in their efforts to finance further clinical phases. Financial investors will be far less willing to take the associated risk in a more challenging economic environment if they can obtain a 5 percent yield with 10-year Treasury bonds. The result are massive job cuts and business closures on the east and west coasts of the United States. Biotech companies with drug candidates in later development stages are bought up by established biopharma companies if they are unable to generate the necessary funds themselves. The first M&A and in-licensing transactions are already underway. All in all, this is likely to lead to a deceleration in the development of new APIs and a consolidation of the market that has been overheating over the last few years. However, the improved molecular biological understanding of the human metabolism and the improved early scientific selection of effective drug candidates, the accelerated market approval, and the growth and return perspectives for innovative drugs keep the number of novel drug candidates and new drug approvals at a high level over 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. The cross-industry disentanglement and the diversification of geopolitical risks through repatriation, near- and onshoring will also contribute to the need and demand for high-quality development and manufacturing capacities, despite a challenging economic environment. In combination, this results in ongoing high demand for high-quality, technologically versatile chemical process development and production capacities for the manufacturing of small molecule APIs in the medium to long term.

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 an expansion of infrastructure.

In addition, it is important to secure the energy supply in the short, medium, and long term. With DOTTIKON ES' own photovoltaic system on the roof of the new raw materials warehouse, which went into operation in the last business year, and the further planned photovoltaic systems on the rooftops of new warehouses, up to 5 percent of the company's annual electricity consumption will be generated 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. In addition, efforts with customers to increase the efficiency of manufacturing processes and the applicable regulatory framework for APIs are being intensified – to increase yields, reduce waste and energy consumption, and with the aim to lower the related CO_2 emissions and production costs. DOTTIKON ES invests a total of around CHF 700 million in new 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 process development and manufacturing 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 quality and 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 more than 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 avoid and 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 profitable growth potential. The utilization of existing plants is kept at a high level until the additional new plants become operational. In order to secure long-term growth of DOTTIKON ES, the 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.

Sustainability
Along with the publication of its Half-Year Report 2023/24, for the first time, DOTTIKON ES Group publishes the anticipated Sustainability & Corporate Responsibility Report for the year 2022. The new non-financial reporting obligations according to the Swiss Code of Obligations will be applicable from 2023, followed by the new transparency obligations for climate risks from 2024 onwards. Further, the Swiss population has voted in favor of the Federal Act on Climate Protection Targets, Innovation and Strenghtening Energy Security. This requires DOTTIKON ES Group to achieve net-zero greenhouse gas emissions by 2050 for at least the direct emissions caused by its operations (Scope 1 according to the Greenhouse Gas [GHG] Protocol) as well as those indirectly caused through purchased energy (Scope 2). The other emissions from activities in the upstream or downstream value chains outside the company's premises are referred to as Scope 3. In addition to the direct (Scope 1) and indirect (Scopes 2 and 3) emissions, there is also the concept of avoided emissions, often referred to as Scope 4 (not part of the GHG Protocol terminology). These are potential emissions that are avoided as a result of measures taken to avoid emissions that otherwise would have occurred. In the case of DOTTIKON ES' business activities, these are reductions in material and energy use through shorter synthesis routes, more efficient manufacturing processes with high selectivities, yields, and purities as well as reduced energy consumption, also taking into account the raw materials in use. In line with the entropy efficiency priorities, waste materials shall be recycled, materially or thermically reprocessed. This reduces waste and ultimately (CO_2) emissions. Scope 4 is the most important lever to secure long-term lower Scope 1, 2, and 3 emissions.
A main challenge lies already in the many assumptions with great uncertainties for the greenhouse gas emission estimates, in particular with the required inclusion of the entire value chain. This inevitably results in excessive bureaucracy to monitor and prevent cosmetically improved calculations – so called green-washing, which is already done opportunistically by governments and companies on a grand scale. Yet this formal aspect is only the beginning, as the ultimate real challenge lies in the technical and economic feasibility of net zero.
DOTTIKON ES is a strongly backward integrated Custom Development and Manufacturing Organization (CDMO) with a one-site strategy in Dottikon (Aargau, Switzerland). DOTTIKON's Scope 1 emissions are around 16'000 tons of CO_2 per year. Broken down by purpose, 87 percent are waste incineration (60 percent of which with thermal recovery in the form of steam generation), 10 percent steam generation with fossil and residual-derived substitute fuels, and 3 percent heating of buildings, transport, and emergency power generated with oil and diesel. Broken down by CO_2 sources, 83 percent are from incinerated waste materials, 13 percent from oil/diesel, and 4 percent from natural gas. A year earlier, before the gas shortage caused by the war in Ukraine, the two latter ones accounted for 12 percent (natural gas) and 7 percent (oil/diesel). DOTTIKON ES' only Scope 2 emissions are the externally sourced electricity from nuclear power with CO_2 emissions of around 370 tons.

The electrification of fossil energy consumption will only make sense once massively more hydro, wind, nuclear, and photovoltaic electricity generation capacity has been built worldwide. Otherwise, the additional electricity required will have to be low-cost fossil generation. Carbon capture technologies today are still too far away from technical maturity and therefore not available at economically reasonable costs, though emerging providers currently promise in their discussions with financial investors that the cost will eventually be around CHF 50 to CHF 100 per ton of CO_2, which would roughly correspond to today's CO_2 emission allowance costs. From today's vantage point, the net-zero goal for 2050 is not yet feasible technically and may never be feasible from an economic or sociopolitical point of view in the given timeframe. As a result, it is unrealistic despite being required by law. It must therefore be assumed that the legal targets and framework conditions will inevitably have to be adjusted and loosened significantly and corrected over time. The first minor downgrades of the ambitious targets and implementation measures have already been seen and initiated in the UK and in Sweden, for example, but also at EU level. This is just the beginning. Along with other organizations, the International Energy Agency no longer considers achieving the 1.5°C target to be realistic from today's point of view. This creates great legal uncertainty and is not a good prerequisite and basis for the necessary high-cost, large-scale infrastructure investments such as CO_2 capture, pipelines, and storage sites.

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Key Figures DOTTIKON ES Group

CHF million	FY 2022/23	HY 2022/23	HY 2023/24
Net sales	**319.5**	**133.8**	**152.6**
EBITDA[1]	**116.6**	**47.1**	**52.6**
EBITDA margin (in % of net sales)	*36.5%*	*35.2%*	*34.5%*
EBIT[2]	**96.0**	**37.5**	**42.6**
EBIT margin (in % of net sales)	*30.0%*	*28.0%*	*27.9%*
Net income	**87.7**	**38.9**	**37.4**
Net income margin (in % of net sales)	*27.5%*	*29.1%*	*24.5%*
Cash flow from operating activities	**89.5**	**49.4**	**50.0**
Investments[3]	–136.4	–52.2	–72.4
Free cash flow[4]	**–46.9**	**–2.8**	**–22.4**

[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, 2022, to March 31, 2023
HY: business half-year from April 1 to September 30

The Annual Report 2023/24, covering the period from April 1, 2023, to March 31, 2024, will be presented on May 28, 2024.

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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 more than 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 avoid and 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.
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