In a challenging market environment, VAT delivers strong results albeit below the record levels of 2022

In 2023, the global semiconductor industry – VAT's largest market – experienced the anticipated slowdown in investment activities, which had already started during the fourth quarter of 2022. While VAT's long-term demand drivers, such as the Internet of Things, cloud computing, wireless communications and artificial intelligence remained firmly in place, capital investments into additional manufacturing capacity took a breather after three years of unprecedented growth. The main reasons for this were the short-term market demand slowdown in the consumer sector, coupled with inflationary trends and geopolitical uncertainties.

Starting in late 2022, and for most of 2023, VAT customers adjusted their inventory to reflect the underlying demand. This translated directly into lower orders and sales for VAT. While the bottom of this downturn was reached in the first half of 2023, momentum was slow to return and slightly accelerated demand only fed through during the fourth quarter.

During the year, the most pronounced slowdown in the investment activity in the semiconductor sector was witnessed in the memory space and in the flash memory (NAND) sector where investments were a third lower than in 2022. In DRAM, the decline was 16% and the logic sector held its investment volume relatively stable which was only depressed by 2% compared to 2022. Technology progress continued with node sizes shrinking further with sub 7nm becoming more and more mainstream technologies, fueling additional investments in lithography tools. While the overall wafer fab equipment (WFE) investments for the non-lithography space declined by some 7% in 2023, lithography investments increased by more than 25% compared to a year earlier, to a large extent driven by demand for immersion tools from China. In 2023, for the first time, the largest portion of the wafer fab equipment investments came from end users in markets related to ICAPS – IoT, Communications, Automotive, Power and Sensors. Whereas the leading-edge foundry-logic segment use the most advanced process technologies, for primarily digital applications, ICAPS leverage mature or highly specialized process technologies to manufacture a wide range of devices. In addition, China invested heavily into its own semiconductor infrastructure, mainly in the lagging edge technologies. As a result, WFE volume in 2023 was flat compared to 2022, based on preliminary numbers compiled by TechInsight.

In the Global Service business segment, which is also predominantly exposed to the semiconductor market, business declined in 2023 as fabs also reduced their

Net sales
in CHF million

885

2022: 1,145

inventories, especially in spare parts and consumables, as their capacity utilizations declined significantly. This development is common in phases of declining market demand for semiconductors; however, the inventory levels of spares and consumables was at an elevated level after the supply chain challenges witnessed in 2021 and 2022, coupled with record levels of capacity utilization. The lower number of new fab constructions also negatively impacted the sub-fab business, and upgrades and retrofit of existing tools were also weak.

In the Advanced Industrial markets, the order pattern was muted throughout 2023 as global industrial activity slowed. It was only towards the end of the year that a rebound was felt in certain industries in areas such as research, uranium enrichment and solar-related businesses.

Technology investments, ramping-up production capabilities and operational excellence remain key focus areas

As the global technology leader in valves with a focus on the development of additional adjacent products, VAT continued to make significant investments in innovation and product development, which are both major drivers of future growth and profitability. In 2023, R&D investments increased by about 7% compared to 2022 and amounted CHF 54 million, or 6% of net sales.

As a result of the ongoing innovation efforts and the close collaboration with its customers, VAT won 120 specifications for future manufacturing platforms, 21% higher than the specification wins recorded in 2022. These specification wins are proof of VAT's superior innovation and technology position, especially in all the leading-edge applications currently under development. These wins are also the foundation of VAT's future growth and expected market share gains.

VAT also continued its large investment program by executing the build-up of both its second manufacturing site in Penang, Malaysia and its Innovation Center in Switzerland. Once completed, Malaysia will have an installed annual production capacity of more than CHF 1 billion and, together with roughly CHF 1 billion annual capacity in Switzerland, represents sufficient production reserves to accommodate all foreseeable customer demand for the next couple of years. Investing proactively in creating sufficient capacity is one key differentiator and success factor in VAT's markets, as customers continue to consolidate their supplier base.

Work on the Innovation Center in Switzerland started during 2023 and is expected to be finalized in early 2025, offering both R&D and corporate working space. The new center will enable VAT to add some 100 additional engineers with specific experience in the field of mechatronics.

Lower overall results after three years of unprecedented growth

Against the background of weaker markets especially in the semiconductor-related businesses, VAT sales in 2023 declined from the record levels posted in 2022. In line with this drop in sales, EBITDA, EBITDA margin, free cash flow and net income also decreased. However, the absolute overall performance remained at a very reasonable level, especially when considering the strong foreign exchange headwind triggered by the ongoing strength of the Swiss franc against all of VAT's trading currencies.

Total orders amounted to CHF 692 million, down 43% from the very high levels seen in 2022. The decline reflects our VAT's customers' inventory adjustments, especially in the semiconductor-related valves and service businesses. This was further impacted by the

EBITDA margin
EBITDA as % of net sales

30.6

2022: 35.0

Net income
in CHF million

190

2022: 307

slowly normalizing supply chain situation, which reduced our customers' need to hold extra stock. Against this sharp order decline, which is the normal pattern in a business downturn in the sector, VAT executed a large part of the backlog it had at the end of 2022. At the end of 2023, VAT's order backlog amounted to CHF 292 million, which is still a healthy level going into 2024, but about 44% below the record level of CHF 518 million at the end of 2022.

Group net sales in 2023 fell below the CHF 1 billion mark and reached CHF 885 million, which is still the third highest sales volume in VAT's history, but approximately 23% below the volume recorded in 2022. The decline was most pronounced in the business unit Semiconductors, followed by the Global Service business. The business unit Advanced Industrials on the contrary, posted higher sales than in 2022, which was as a result of the good order intake of 2022. Foreign exchange movements, especially in the US dollar against the Swiss franc, had a sizeable negative impact of about 7 percentage points on the 2023 Group net sales.

Gross profit* declined 26% compared with 2022 to CHF 547 million, and the gross profit margin declined to 62% from 64% a year earlier, reflecting partly the inventory reduction of finished goods and work in progress. Personnel costs as a percentage of net sales increased from 20% in 2022 to 24% in 2023, reflecting VAT's commitment to carry an appropriate number of its highly qualified permanent employees through any temporary market softness to be ready to satisfy any customer demand in the next market upswing. In absolute terms, personnel costs declined by 7%, mainly the result of fewer temporary employees. The total number of employees (measured as full-time equivalents, FTEs) declined from 2,991 to 2,666, or 11% compared to a year earlier.

Despite another year of strong operational execution and cost discipline, EBITDA for the year decreased by 32% to CHF 271 million, reflecting mainly the impact from the lower volumes sold and investments in our workforce. Heding gains which are booked above the EBITDA line in other income had a positive impact. As a result, the full-year EBITDA margin declined by about 4.4 percentage points from 35% in 2022 to a still very healthy 30.6%, as VAT successfully executed its cost and productivity measures. While this is slightly below the EBITDA margin band of 32% to 37%, as communicated at the 2022 capital markets day, VAT consciously opted for continued commitment to its highly qualified permanent employees as well as to an unchanged and actually higher total R&D spend in 2023. In the second half of 2023, the EBITDA margin had recovered to 32.1% which was within the target band. Foreign exchange movements, primarily in the US dollar against the Swiss franc, had a positive impact of about 1.6 percentage points on the reported 2023 EBITDA margin, as hedging gains recorded in other income above the EBITDA line offset negative impact on the operational items, such as the revaluation of accounts receivable or accounts payable.

Compared with 2022, VAT's 2023 EBIT amounted to CHF 229 million, down CHF 131 million, or 36%, while the EBIT margin decreased by about 6 percentage points to 25.8%.

Below the EBIT line, VAT incurred substantially higher net finance costs compared to the previous year. While finance income remained relatively stable,

* Gross profit = net sales minus cost of materials plus/minus changes in inventories of finished goods and work in progress.

finance costs increased by 361% to CHF 24 million, mainly the result of net foreign exchange losses on financing activities. The net finance result amounted to minus CHF 21 million, compared to minus CHF 3 million a year earlier.

Earnings before taxes (EBT) decreased to CHF 207 million from CHF 356 million, down 42%. The effective tax rate for 2023 was only 8%, down from 14% in 2022. This was mainly driven by higher profits from Swiss entities, where statutory tax rates are lower, and the effect of prior year items in Swiss entities.

As a result of these factors – and as indicated by company management during the year – realized net income attributable to shareholders decreased in 2023, amounting to CHF 190 million, or 38% less compared with 2022.

On December 31, 2023, VAT's net debt amounted to CHF 63 million, representing a leverage ratio expressed as net debt-to-EBITDA of around 0.2 times, compared to a leverage ratio of 0.1 at the end of 2022. The average leverage over the course of 2023 was around 0.3 times net debt-to-EBITDA, as improving free cash flow generation through the year reduced net debt after the seasonal peak at the end of May when VAT paid its dividend. The equity ratio at year-end amounted to 65% compared with 61% a year earlier.

Substantial free cash flow despite lower EBITDA and higher capex support proposal of an unchanged dividend

One of VAT's key performance indicators and the basis for its dividend consideration is free cash flow, which in 2023 declined from its record level of CHF 228 million in 2022 and amounted to CHF 189 million, down 17% year-on-year. This still represents a high level, whereby cash inflow from operating activities decreased by about CHF 38 million while cash outflows for capex increased by CHF 3 million from CHF 66 million in 2022 to CHF 69 million in 2023.

Capex amounted to approximately 8% of net sales in 2022, above the company's guidance of 4–5% of sales on average. This is mainly due to investments in production capacity in Malaysia, where VAT is establishing a second factory scheduled to be opened in 2024, and investments in an Innovation Center in Haag, Switzerland, which is expected to be completed in early 2025.

At year-end 2023, net trade working capital amounted to CHF 244 million, approximately 19% lower than at the same time in 2022. Net trade working capital represented 28% of sales, a 2-percentage-point increase versus 2022, mainly as a precautionary measure in anticipation of the business acceleration expected in 2024.

Free cash flow as a percentage of net sales increased from 20% to 21% in 2023 and the free cash flow conversion rate was at 70% of EBITDA. Free cash flow to equity amounted to CHF 182 million compared with CHF 225 million in 2022.

At its Annual General Meeting on May 14, 2024, VAT's Board of Directors will propose an unchanged dividend for the fiscal year ending December 31, 2023, of CHF 6.25 per registered share, reflecting good free cash flow generation in 2023 and the expected positive business development in 2024. The proposed dividend of CHF 6.25 per registered share will be paid from the company's accumulated gains. The proposal amounts to a total dividend of CHF 187.5 million, or 103% of VAT's free cash flow to equity.

Dividend proposal
in CHF

6.25

2023 actual: 6.25