Media Release

Haag, Switzerland, March 8, 2019

VAT REPORTS SOLID 2018 RESULTS AS FLEXIBLE OPERATING STRUCTURE AND MARKET SHARE GAINS BUFFER SOFTER SECOND-HALF MARKET

Full year 2018

- Net sales up 1% to CHF 698 million on further market share gains; order intake 12% lower to CHF 648 million
- EBITDA reaches CHF 215 million; EBITDA margin at 30.8% on successful cost measures
- Net income up 17% to CHF 136 million
- Free cash flow increased 14% to CHF 124 million
- Dividend proposal of CHF 4.00 per share

Q4 2018

- Slowdown in semiconductor demand continued
- Q4 order intake down 28% year-on-year; net sales down 25%

Outlook 2019

- Softer market expected to reduce sales[1], EBITDA, EBITDA margin and net income vs 2018
- Mid-term EBITDA margin target confirmed at 33%, achievement by 2020 depends on 2019 market development, underpinned by continuous improvements in the operating model, global footprint and product innovation
- Capex of CHF 30-35 million; free cash flow expected to be above 2018 level

Guidance for Q1 2019

- VAT expects net sales of CHF 120-130 million

[1] at constant foreign exchange rates

Q4 2018

in CHF million	2018	2017	Change
Order intake	134.5	185.8	-27.6%
Net sales	148.8	199.1	-25.2%

Full year 2018

in CHF million	2018	2017	Change
Order intake	648.0	736.2	-12.0%
Net sales	698.1	692.4	+0.8%
EBITDA	215.2	212.2	+1.4%
EBITDA margin	30.8%	30.6%	-
Adjusted EBITDA[1]	-	215.1	-
Adjusted EBITDA margin[1]	-	31.1%	-
Net income[2]	135.7	115.7	+17.3%
Basic earnings per share (EPS, in CHF)	4.53	3.86	+17.2%
Free cash flow[3]	123.9	108.5	+14.2%
Dividend per share (in CHF)[4]	4.00	4.00	-
Number of employees (FTE)	1'712	1'946	-234

[1] Adjusted EBITDA excludes one-off items
[2] 2017 includes recycling of non-cash translation reserves of CHF 38.3 million for unwinding the financing structure set up by the former private equity owners
[3] Free cash flow is calculated as cash flow from operating activities minus cash flow from investing activities
[4] Proposal of the Board of Directors to its shareholders at the AGM on May 16, 2018; to be paid out of reserves from capital contributions

Market moderation continues in fourth quarter of 2018

The market moderation that started in the middle of 2018 continued in the fourth quarter, mainly reflecting the push-out of capital expenditures by semiconductor customers in new fabrication projects after two-and-a-half years of strong investment. Order intake in the quarter was CHF 135 million, down 28% from the fourth quarter of 2017. The order backlog at year-end amounted to CHF 114 million, a decline of 31%. Net sales in the quarter reached CHF 149 million, representing a decrease of 25% year-on-year.

VAT reports stable full-year 2018 results thanks to flexible business model

VAT reported stable results in 2018 despite a softening business environment in the second half of the year. Net sales grew significantly in the first six months, reflecting the strong market demand and customer capacity increases. Orders and sales moderated in the second half as some customers postponed further capacity expansion plans. Nevertheless, VAT could build on its leading technology and market position to expand market share from 46% to 49% and report slightly higher revenues, leading to another record for net sales. At the same time, the company's ability to quickly adjust capacity across its global footprint also allowed it to maintain profitability at the same level as 2017.

Mixed market conditions in 2018 after two years of record growth

VAT's markets showed a mixed picture in 2018, with steady to higher demand in some sectors but a marked second-half slowdown in semiconductors, the company's largest end market. The semiconductor space has been characterized in recent years by intense capital spending to build new production capacity, especially for memory chips used to store data. This contributed to very strong sales growth for VAT in 2016 and 2017, increases of 24% and 36%, respectively, as well as an 18% rise in net sales in the first half of 2018. This new capacity, however, together with higher production yields in existing manufacturing facilities, led to a slight oversupply in the second half of the year. In response, semiconductor manufacturers postponed a number of capex initiatives, resulting in lower orders for new vacuum equipment.

At the same time, demand remained strong in other parts of VAT's end markets, such as logic chips used for data processing, and solar photovoltaic equipment. Technology innovations made during the last two to three years that resulted in specification wins – when customers choose VAT valve designs for their future projects – began to generate revenues in 2018. In addition, VAT continued to successfully build its general vacuum and service businesses. All of these factors allowed the company to again increase its market share and offset the second-half demand slowdown to generate slightly higher net sales for the full year.

Higher revenues in two out of three segments

Total order intake in 2018 amounted to CHF 648 million, down 12% from the previous year. The order backlog at year-end stood at CHF 114 million, a decrease of 31% compared to the end of 2017. The lower backlog reflects not only a decrease in orders but also improved customer delivery times. Net sales grew slightly, up 1% compared with 2017, to reach CHF

698 million, a new record. Currency movements had no material impact on the change in net sales.

Two out of three business segments contributed to the growth in net sales. Global Service reported a 7% year-on-year increase in net sales to CHF 106 million as a result of the successful execution of a focused service strategy. Net sales in the Industry segment rose 5% to CHF 41 million, driven by edge-welded bellows used in the semiconductor market as well as higher revenues in mechanical components and assemblies manufacturing.

Net sales in the Valves segment were impacted by lower demand in the second half of 2018 and ended the year marginally below the 2017 level at CHF 551 million.

EBITDA profitability maintained on rapid implementation of cost adjustments

Gross profit, measured as net sales minus cost of materials plus (minus) changes in inventories of finished goods and work in progress, declined 3% compared with 2017 to CHF 420 million, mainly reflecting changes in inventories. As a result, the gross margin declined by about two percentage points to 60%.

Personnel expenses reflect adjustments to the slower demand in the second half of 2018, including a reduction in the number of temporary employees and a short-time work program initiated during the fourth quarter for about 400 production employees in Haag, Switzerland. At the end of 2018, VAT employed 1,712 people worldwide, a decrease of 234, or 12%, compared with the end of 2017.

EBITDA for the year improved by 1% to CHF 215 million. For the purpose of comparison, when the 2017 result is adjusted for the impact of bonus costs associated with the company's Initial Public Offering, VAT's EBITDA remained unchanged (as of 2018, these costs are no longer being incurred and no adjustment has been made to the 2018 result).

The EBITDA margin also rose slightly, to 30.8% from 30.6%. Compared with the adjusted 2017 EBITDA margin of 31.1%, the 2018 EBITDA margin is slightly lower.

Although sales in the second half of 2018 declined by 19% compared with the first six months of the year, and EBITDA was 24% lower, the company achieved a second-half EBITDA margin of 29.9% versus 31.6% in the first half. This was due in large part to VAT's flexible business model that allowed the company, for example, to cut material costs quickly as a result of recent improvements to its global supply chain, as well as to rapidly adjust its temporary employee workforce as demand levels changed. In addition, VAT successfully reduced costs in the areas of travel expenses, non-production materials costs, accrued overtime and the introduction of short-time work at its main production facility in Switzerland from October 2018.

VAT's EBIT also grew marginally to CHF 180 million, leading to an EBIT margin of 25.7%, 0.1 percentage point lower than 2017.

Below the EBIT line, VAT incurred slightly higher finance costs. Adjusted for the 2017 non-cash costs of unwinding the financing structure set up by the former private equity owners, VAT's finance costs increased from minus CHF 6 million in 2017 to minus CHF 14 million in 2018. The main reason for this increase are negative foreign exchange effects of CHF 7 million. Reported finance net for 2018 was minus CHF 14 million, compared to minus CHF 44 million in 2017.

As a result of the substantially lower reported finance net result, earnings before taxes (EBT) increased by 24% to CHF 167 million. Income tax expenses increased in 2018, resulting in an effective tax rate of 18.5%, within the Group's expected target range of between 18 to 20%.

As a result of the positive development of operating results, lower finance net and a slightly higher effective tax rate, VAT realized net income attributable to shareholders in 2018 of CHF 136 million, an increase of 17%.

On December 31, 2018, VAT's net debt amounted to CHF 148 million, representing a leverage ratio expressed as net debt to EBITDA of 0.7 times. The equity ratio at year-end amounted to 58.3%.

Strong free cash flow generation driven by higher cash from operating activities

One of VAT's key performance indicators is free cash flow, which in 2018 amounted to CHF 124 million, an increase of 14% compared with the previous year. This is primarily the result of a 10% increase in cash flow from operating activities. Capital expenditures of CHF 48 million were essentially unchanged compared with 2017 and included the capacity expansion in Malaysia, which was concluded on schedule and on budget. Capital expenditures in 2018 represented 6.9% of Group net sales, the same level as in 2017.

Net trade working capital increased by approximately 13% compared with 2017 and now represents about 23% of net sales. VAT aims to reduce this closer to the target level of 20% of net sales in 2019.

As a result, the free cash flow margin as a percentage of net sales was 18% and the free cash flow conversion rate was 58% of EBITDA.

At its Annual General Meeting on May 16, 2019, VAT's Board of Directors is proposing a dividend for the fiscal year ending December 31, 2018, of CHF 4.00 per share to be paid out of reserves from capital contributions. That amounts to a total dividend amount of CHF 120 million, or 100% of VAT's free cash flow to equity. This is in line with the stated dividend policy of paying up to 100% of free cash flow to equity to shareholders and reflects the company's confidence in its cash generation capabilities based on expectations of future business development and an improvement in the free cash flow conversion rate.

Outlook: Fundamental mid-term growth drivers remain in place

VAT's medium-term growth drivers remain firmly in place. The Internet of Things, cloud computing and storage, artificial intelligence and many other global digitalization trends are expected to fuel further demand for semiconductors and advanced displays over the next several years. This, in turn, is forecast to drive demand for VAT's high-performance vacuum components and related services, which are mission-critical in the precision manufacture of these digital devices. In addition, VAT forecasts a further expansion of vacuum-based production processes in a variety of industries.

For 2019, however, market visibility is very limited. The semiconductor and display sectors are still digesting the large increases in capital expenditures from 2016 to the middle of 2018. Independent market researchers, leading OEM manufacturers and VAT customers expect investments in these sectors to slow significantly in 2019, especially in the first half.

On the other hand, forecasts are more positive for general vacuum growth in industrial markets and for service-related activities. Overall demand patterns for 2019 remain unclear.

On this basis, VAT expects net sales at constant foreign exchange rates in 2019 to be lower compared with 2018.

The company will continue to take advantage of its more flexible global organization and footprint to adjust costs in response to the changing market situation. This includes opportunities to realize gains from economies of scale in global supply chains as well as continued operational excellence measures across all of it business processes. At the same time, VAT is committed to building its long-term innovation and market leadership and intends to maintain investments in technology and productivity improvements in 2019.

The company expects its full-year EBITDA margin to be lower in 2019 versus the year before.

VAT maintains its mid-term EBITDA margin target of 33% but its achievement by 2020 depends on the development of VAT's markets in 2019, underpinned by continuous improvements in the operating model, global footprint and product innovation.

As a consequence of the expected lower net sales and EBITDA margin levels, VAT also expects net income to be below the level of 2018.

Capital expenditures in 2019 are planned to be between CHF 30 and 35 million. Free cash flow in 2019 is expected to increase compared with the previous year, mainly as the result of improved net working capital management and lower capital expenditures.

Segment results Q4 and full-year 2018

VALVES

in CHF million	Q4 2018	Q4 2017	Change	2018	2017	Change
Order intake	**97.7**	152.7	-36.0%	**497.5**	590.6	-15.8%
Net sales	**112.7**	159.7	-29.5%	**551.1**	554.2	-0.6%
Inter-segment sales	**9.3**	12.7	-26.8%	**44.4**	41.1	+8.0%
Segment net sales	**122.0**	172.4	-29.3%	**595.5**	***595.3***	+0.0%
Segment EBITDA				**192.4**	188.6	+2.0%
EBITDA margin				**32.3%**	31.7%	

VAT's largest segment, Valves, reported an order intake of CHF 98 million in the fourth quarter of 2018, a decrease of 36% over the same quarter in 2017. Net sales in the period decreased 30% to CHF 113 million. The decline is the result of lower investments from semiconductor customers.

Full-year net sales of CHF 551 million were basically flat compared with 2017. Net sales in the Display & Solar and General Vacuum business units increased, but were lower in Semiconductors and Modules as a result of softening demand from the semiconductor sector in the second half of the year. Segment EBITDA rose by 2% to CHF 192 million and the EBITDA margin climbed to 32.3%, driven by the growth of some higher-margin products in the Display & Solar business unit.

GLOBAL SERVICE

in CHF million	Q4 2018	Q4 2017	Change	2018	2017	Change
Order intake	**28.7**	21.5	+33.5%	**108.4**	103.6	+4.6%
Net sales	**27.6**	28.6	-3.6%	**105.8**	98.7	+7.1%
Inter-segment sales	**-**	-	-	**-**	-	-
Segment net sales	**27.6**	28.6	-3.6%	**105.8**	98.7	+7.1%
Segment EBITDA				**49.6**	47.6	+4.2%
EBITDA margin				**46.9%**	48.2%	

Global Service increased its order intake in the fourth quarter by 34% to CHF 29 million, mainly reflecting the timing of orders received in the same quarter of the previous year. Net sales amounted to CHF 28 million, a decrease of 4% compared to the same quarter in the previous year.

For the full year 2018, net sales increased 7% to CHF 106 million, surpassing the CHF 100-million mark for the first time. Growth was strongest in the service centers and in the subfab market where more customers invested in services to protect their critical processes. Segment EBITDA rose 4% to CHF 50 million. The EBITDA margin amounted to 46.9%, a slight decrease compared to 2017.

INDUSTRY

in CHF million	Q4 2018	Q4 2017	Change	2018	2017	Change
Order intake	**8.1**	11.6	-30.2%	**42.2**	42.0	+0.5%
Net sales	**8.6**	10.8	-20.2%	**41.3**	39.5	+4.7%
Inter-segment sales	**3.4**	6.0	-43.3%	**21.9**	22.6	-3.1%
Segment net sales	**12.0**	16.8	-28.5%	**63.2**	62.1	+1.8%
Segment EBITDA				**8.4**	13.4	-37.3%
EBITDA margin				**13.3%**	21.5%	

In the Industry segment, order intake in the fourth quarter decreased by 30% to CHF 8 million partly due to inventory reduction at one of its customers. Net sales amounted to CHF 9 million, down 20% compared to the same quarter a year earlier.

Full-year 2018 net sales in the Industry segment grew 5% compared with the year before, reaching CHF 41 million in 2018. Internal sales (not included in the net sales number) to the Valves segment declined 3% to CHF 22 million, reflecting the slowdown in the semiconductor equipment market in the second half of 2018. The growth in third-party net sales was driven by various industries, led by automotive, and is the result of a focused strategy to increase the penetration of these markets.

Segment EBITDA declined 37% however, as the buildup of capacity in the first half of the year, including investments in new equipment to increase productivity, led to under-absorption in the second half of the year.

Additional information

The analyst presentation of the results and the 2018 annual report are available on VAT's website at http://www.vatvalve.com/InvestorRelations/investor-relations/financial-reports.

VAT will host a media and investor event today in Zurich at 10 a.m. CET. The event can be followed over a webcast or via conference call. Participants of the conference call will also be able to join the moderated Q&A session.

Please follow the link below to access the webcast:

Live Webcast

For the conference call please dial:

+41 58 310 5000 (Europe)
+44 207 107 0613 (UK)
+1 631 570 5613 (USA)

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Financial calendar

Q1 2019 trading update	Tuesday, April 16, 2019
Annual General Meeting	Thursday, May 16, 2019
Ex-date	Monday, May 20, 2019
Dividend payment	Wednesday, May 22, 2019
Half-year 2019 results	Thursday, August 8, 2019
Q3 2019 trading update	Thursday, October 24, 2019
Full-year 2019 results	Tuesday, March 3, 2020

ABOUT VAT

VAT is the leading global developer, manufacturer and supplier of high-end vacuum valves. VAT vacuum valves are mission-critical components for advanced manufacturing processes of innovative products used in daily life such as portable devices, flat screen monitors or solar panels. VAT is organized into three different reporting segments: Valves, Global Service and Industry offering high-end vacuum valves, multi-valve modules, edge-welded bellows and related value-added services for an array of vacuum applications. VAT Group is a global player with over 1'700 employees and main manufacturing sites in Haag (Switzerland), Penang (Malaysia) and Arad (Romania). Net sales in the financial year 2018 amounted to CHF 698 million.

FORWARD-LOOKING STATEMENT