Media Release

Haag, Switzerland, March 3, 2020

VAT WEATHERS DOWN-CYCLE WELL; POSTS STRONG Q4 GROWTH; RECORD FULL-YEAR FREE CASH FLOW

Q4 2019
- Group orders and net sales up 31% and 15% year-on-year, 20% and 24% higher vs. third quarter as market continues to recover
- Further operational improvements based on more flexible global footprint and value chain

Full year 2019
- Net sales down 18% to CHF 570 million as market passes through cyclical trough, but market share continues to grow
- EBITDA, EBITDA margin and net income decline on lower sales volume
- Record free cash flow of CHF 140 million on lower capex and net working capital
- Board of Directors proposes unchanged dividend of CHF 4.00 per share

Outlook 2020
- Return to growth driven mainly by semiconductor-related activities but visibility is limited, partly due to uncertainty regarding impact of coronavirus on global supply chains
- Group net sales[1], EBITDA, EBITDA margin and net income expected to grow vs 2019
- Mid-term EBITDA margin target of 33% confirmed and now expected to be reached at lower sales levels than originally anticipated
- Capex expected to be around CHF 30 million; free cash flow depends on magnitude of sales growth and working capital requirements and may be lower than 2019

Guidance for Q1 2020
- VAT expects net sales of CHF 140-150 million

[1] at constant foreign exchange rates

Q4 2019

in CHF million	Q4 2019	Q3 2019	CHANGE[2]	Q4 2018	CHANGE[3]
Order intake	**176.3**	147.0	+19.9%	134.4	+31.1%
Net sales	**170.4**	137.0	+24.4%	148.7	+14.6%
	Dec. 31 2019	Sept 30,2019	Change[2]		
Order Backlog	**114.5**	120.7	-5.1%		

[2] Quarter-on-Quarter [3] Year-on-Year

Full year 2019

in CHF million	2019	2018	Change
Order intake	585.0	648.0	-9.7%
Net sales	570.4	698.1	-18.3%
EBITDA	154.0	215.2	-28.4%
EBITDA margin	27.0%	30.8%	-
Net income	74.8	135.7	-44.9%
Basic earnings per share (EPS, in CHF)	2.50	4.53	-44.9%
Free cash flow[4]	139.9	123.9	+12.9%
Dividend per share (in CHF)[5]	4.00	4.00	-

[4] Free cash flow is calculated as cash flow from operating activities minus cash flow from investing activities
[5] Proposal of the Board of Directors to its shareholders at the AGM on May 14, 2020

Market recovery continues in Q4 of 2019, driven mainly by semiconductor sector

The market recovery that started in the second quarter of 2019 continued in the fourth quarter, mainly reflecting accelerating demand from semiconductor OEMs who started to re-stock their inventory in light of improving order patterns for new fabrication projects in both logic and memory. Order intake in the quarter was CHF 176 million, 31% higher than the same quarter in 2018 and up 20% compared to the third quarter of 2019. Net sales in the quarter reached CHF 170 million, an increase of 15% compared to a year ago and 24% higher quarter-on-quarter. The book-to-bill ratio in Q4 was 1.03.

VAT reports lower full-year 2019 results, but continues to build leading market share

VAT Group reported lower net sales, EBITDA and net income in 2019, in line with the company's expectations communicated early in the year. The decrease resulted from the cyclical market downturn that started in the second half of 2018 when customers, mainly in the semiconductor-related businesses, reduced investments in new capacity after two years of strong growth. Despite the challenging market conditions, VAT continued to focus on technology innovation, investing more than CHF 30 million, or 6% of net sales, into research and development. VAT also expanded its market share across all industries to 50%, the sixth year in a row of market share growth. At the same time, VAT focused on internal measures to improve its operational efficiency and costs, allowing it to post an EBITDA margin well above historical trough levels and to generate record free cash flow, despite the lower top line results.

Improving market conditions as the year progressed

VAT's markets got off to a slow start in 2019. Especially in the semiconductor-related businesses, customers continued to postpone further capital expenditures after the intense investments that characterized 2016 and 2017, when large production capacities were added for new technologies such as 3D NAND memory chips. The combination of lower customer capital spending together with higher production yields in existing manufacturing facilities led to a significant decrease in demand for high-vacuum equipment in the second half of 2018 and the beginning of 2019. Overall, global wafer fab equipment (WFE) spending in 2019 declined by some 10%.

However, demand began to recover on a sequential quarter-over-quarter basis starting in the second quarter of 2019 and returned to year-over-year growth by the fourth quarter. Original equipment manufacturers (OEMs) developed a record number of new production platforms during the year in anticipation of further technology advances and the expected medium-term recovery in equipment spending. As the market and technology leader in vacuum valves, VAT cooperated closely with these OEMS to develop new vacuum valve solutions and posted another record year for specification wins, providing additional support for future growth and ongoing market share gains.

Business conditions were also challenging in the display and general vacuum and industry markets, while the service business benefitted from the introduction of several new products to help customers increase equipment uptime and simplify service and maintenance.

Growth in service revenues

Total order intake in 2019 amounted to CHF 585 million, down 10% from the previous year. The order backlog at year-end stood at CHF 115 million, a slight increase of 1% compared to the end of 2018. The year-end backlog includes the cancellation of a larger order related to a solar project that was halted and where it is uncertain whether it will be resumed. Compared to the record levels posted in 2018, net sales declined 18% in 2019 to CHF 570 million. Currency movements had no material impact on the change in net sales.

Net sales grew 6% in the Global Service segment to CHF 112 million but were 23% lower in the Valves segment at CHF 441 million and down 23% in the Industry segment, to CHF 18 million, mainly the result of lower demand from the automotive industry.

Flexible global business model buffers impact of slowdown on EBITDA

Gross profit, measured as net sales minus cost of materials plus (minus) changes in inventories of finished goods and work in progress, declined 18% compared with 2018 to CHF 345 million, in line with net sales development and the company's flexible cost structure, in which about two-thirds of costs are variable. The gross profit margin improved slightly to 61% compared with 60% a year earlier.

A reduction in personnel costs in absolute terms reflects the lower number of employees (measured as full-time equivalents, FTE) and adjustments to the lower volumes produced in 2019. As a percentage of sales, personnel costs increased versus 2018. This was the result of an increase in FTEs in the second half in anticipation of a demand recovery in 2020, as well as certain external costs related to internal process improvement projects. At the end of 2019, VAT employed 1,810 people worldwide, an increase of 98, or 6%, compared with the end of 2018.

EBITDA for the year declined by 28% to CHF 154 million, reflecting the decline in net sales. The full-year EBITDA margin declined to 27% compared with 31% a year earlier. VAT's focus on costs and operational efficiency allowed it to post an EBITDA margin approximately 2 percentage points higher than the average of previous business down cycles of similar magnitude.

VAT's EBIT of CHF 108 million was CHF 72 million below the previous year. This included the negative impact of higher depreciation charges resulting from the finalization of the expansion of our Malaysian production facility in 2018. The EBIT margin amounted to 19% of sales.

Below the EBIT line, VAT incurred lower finance costs of CHF 9 million, down from CHF 13 million a year earlier and mainly the consequence of lower net foreign exchange losses on financing activities and slightly lower interest expenses.

Earnings before taxes (EBT) decreased to CHF 99 million from CHF 166 million. The effective tax rate for 2019 was 24%, a temporary result of the timing of new tax regulations in Switzerland that required the booking of some deferred tax expense in the first half. Going forward, VAT expects the effective tax rate to normalize towards 18% to 20%.

As a result of these factors, and as indicated by company management during the year, realized net income attributable to shareholders declined in 2019, amounting to CHF 75 million, a decrease of 45% compared with the record level of 2018.

On December 31, 2019, VAT's net debt amounted to CHF 144 million, representing a leverage ratio expressed as net debt to EBITDA of 0.9 times, in line with the company's long-term net debt to EBITDA target of 1.0 times. The ratio was slightly higher in 2019, primarily reflecting the lower EBITDA versus the prior year. The equity ratio at year-end amounted to 54%.

Lower capex and trade working capital boost free cash flow

One of VAT's key performance indicators and the basis for any dividend consideration is free cash flow, which in 2019 increased compared with the previous year to a record CHF 140 million from CHF 124 million. A successful reduction of trade working capital, coupled with substantially lower capital expenditures (capex), more than offset lower cash flow from operations. Capex in 2019 of CHF 18 million was 63% lower than in 2018 – when VAT expanded its production facility in Malaysia – and represented 3% of 2019 net sales. Going forward, VAT expects capex as a percentage of sales to remain close to its target of 4% over the cycle.

At year-end 2019, net trade working capital decreased by approximately 23% compared with 2018, representing approximately 21% of net sales. VAT aims to reduce net trade working capital to 20% of net sales over time.

As a result, the free cash flow margin as a percentage of net sales was 25% and the free cash flow conversion rate was 91% of EBITDA.

At its Annual General Meeting on May 14, 2020, VAT's Board of Directors is proposing a dividend for the fiscal year ending December 31, 2019 of CHF 4.00 per share, the same level as the year before.

As a result of the Swiss corporate tax referendum in 2019, companies are only permitted to pay a maximum of 50% of this amount out of the reserves from capital contributions and the other half from accumulated gains. The proposal amounts to a total dividend amount of CHF 120 million, or 89% of VAT's free cash flow to equity.

Outlook: Return to growth in 2020 – order of magnitude uncertain

The medium-term growth drivers for VAT 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. Vacuum-based production processes also continue to gain importance in a variety of other industries, while the solar photovoltaic market continues its long-term growth trend based on improving energy efficiency and cost competitiveness.

For 2020, VAT expects a return to growth, driven mainly by the semiconductor-related businesses. However, market visibility remains limited. While the consensus among market research firms, OEM customers and end customers is for a positive demand development in 2020, the magnitude of the improvement remains unclear, partially reflecting uncertainty regarding the impact of the coronavirus on global supply chains in the company's markets.

In semiconductors, technology advances in logic and foundry require new investments. Capacity in the memory markets is gradually being absorbed by growing demand, indicating a rebound in memory investments. In displays, investments in OLED screens for the latest generations of smartphones and the gradual adoption of OLED for large TV screens are expected to compensate for the decline in new investments in LCD displays. The solar photovoltaic industry is also expected to see higher investments as the energy-generating cost per kilowatt-hour is increasingly competitive with those of fossil-fuel-generated power. Forecasts for general vacuum growth in industrial markets and for service-related activities are also positive.

On this basis, VAT expects net sales at constant foreign exchange rates in 2020 to be higher compared with 2019.

VAT will also continue to take full advantage of its flexible global organization and footprint, including the further ramp-up of its production facility in Malaysia, the realization of gains from economies of scale in global supply chains as well as operational excellence measures. At the same time, VAT remains dedicated to technology innovation and increasing market share. Investments in research and development and productivity improvements will therefore remain at the heart of VAT's strategy in 2020.

Furthermore, the company expects its 2020 EBITDA margin to be higher than in 2019, driven by higher volumes and better cost absorption as well as the ongoing focus on costs. VAT maintains its mid-term EBITDA margin target of 33%, but now expects to reach this at a lower sales level than originally anticipated.

As a consequence of the expected higher sales, EBITDA and EBITDA margin, VAT also expects an increase in net income compared with 2019.

Capital expenditure in 2020 is expected to be around CHF 30 million. Free cash flow in 2020 will depend on the magnitude of sales growth and working capital requirements and may be lower than in 2019.

Guidance for Q1 2020

VAT expects net sales of CHF 140-150 million.

Segment results Q4 and full-year 2019

VALVES

in CHF million	Q4 2019	Q4 2018 adjusted[1]	Change	2019	2018 adjusted[1]	Change
Order intake	**146.8**	99.8	+47.2%	**463.0**	510.8	-9.3%
Net sales	**139.9**	116.2	+20.4%	**440.9**	569.3	-22.6%
Inter-segment sales	**13.2**	9.3	+41.8%	**51.6**	44.4	+16.2%
Segment net sales	**153.1**	125.5	+22.0%	**492.5**	613.7	-19.7%
Segment EBITDA				**136.3**	195.5	-30.3%
EBITDA margin[2]				**27.7%**	31.9%	

VAT's largest segment, Valves, reported an order intake of CHF 147 million in the fourth quarter of 2019, an increase of 47% over the same quarter in 2018. Net sales in the period increased 20% to CHF 140 million. The improvement is the result of growing demand mainly in the semiconductor business.

Net sales in the Valves segment in 2019 amounted to CHF 441 million, 23% lower compared with 2018, reflecting the cyclical market slowdown after three years of very strong growth. Sales were lower in all three businesses, with the largest decrease in the Display & Solar business unit, followed by Semiconductors and General Vacuum. Segment EBITDA decreased by 30% to CHF 136 million, and the EBITDA margin was lower at 28%, partly reflecting continued investments in R&D during the year to better position the segment for future growth opportunities as market demand recovers.

GLOBAL SERVICE

in CHF million	Q4 2019	Q4 2018	Change	2019	2018	Change
Order intake	**25.3**	28.7	-11.9%	**106.4**	108.4	-1.8%
Net sales	**26.9**	27.6	-2.4%	**111.8**	105.8	+5.7%
Inter-segment sales	**-**	-	-	**-**	-	-
Segment net sales	**26.9**	27.6	-2.4%	**111.8**	105.8	+5.7%
Segment EBITDA				**46.3**	49.6	-6.7%
EBITDA margin[2]				**41.5%**	46.9%	

Orders in Global Service decreased in the fourth quarter by 12% to CHF 25 million, mainly reflecting the timing of orders received in the retrofit and service business, while orders for spare parts were up. Net sales amounted to CHF 27 million, a decrease of 2% compared with the same quarter in the previous year.

Net sales increased 6% in 2019 to reach CHF 112 million. Growth was strongest in the upgrade and retrofit business where customers invested more in VAT's offerings to improve their existing machines, for example by extending equipment life span and broadening their performance parameters to cope with increasingly complicated production processes. The spare parts business also grew, albeit at a slower pace, as lower capacity utilization among semiconductor manufacturers and other customers reduced the need for preventive maintenance and lowered the wear and tear on certain parts. Sales were steady in the maintenance and service business. The EBITDA margin in the Global Services segment amounted to 42%, lower than in 2018, reflecting investments into new service offerings that yet have to provide higher volumes.

INDUSTRY

in CHF million	Q4 2019	Q4 2018 adjusted[1]	Change	2019	2018 adjusted[1]	Change
Order intake	**4.2**	6.0	-30.5%	**15.5**	28.9	-46.2%
Net sales	**3.6**	5.0	-27.9%	**17.8**	23.1	-23.1%
Inter-segment sales	**2.2**	1.0	+127.2%	**8.9**	7.8	+15.0%
Segment net sales	**5.8**	6.0	-2.6%	**26.7**	30.9	-13.5%
Segment EBITDA				**2.8**	4.3	-34.4%
EBITDA margin[2]				**10.6%**	14.0%	

In the Industry segment, order intake in the fourth quarter decreased by 31% to CHF 4 million as a result of continued soft demand in the automotive sector. Net sales amounted to CHF 4 million, down 28% compared with the same quarter a year earlier.

Net sales in the Industry segment, adjusted for the transfer of the bellows business to the Valves segment, declined by 23% compared with the year before, amounting to CHF 18 million. Internal sales (not included in the net sales number) increased 15% to CHF 9 million, representing sales from Romania to other VAT business units.

Segment EBITDA declined by 34% on a combination of lower volumes and the buildup of capacity, including investments in new equipment such as fully automatic laser-welding robots to increase productivity, that led to under-absorption of production capacity, especially in the first half of 2019.

[1] Starting January 1, 2019, VAT moved its third-party bellows business from the Industry segment into the Valves segment. The move reflects VAT's ambition to drive growth in the bellows business by better aligning it with its primary markets and the needs of customers in the semiconductor and general vacuum sectors. The prior-period figures have been adjusted accordingly, which includes the realignments of net sales of CHF 10.3 million from the segment Industry to the segment Valves. In addition, the Inter-segment sales of the segment Industry were reduced by CHF 8.1 million. In the first six months of the year 2019, the segment Valves achieved net sales of CHF 7.8 million with the bellows business.

[2] EBITDA margin as a percentage of Segment net sales

Additional information

The analyst presentation of the results and the 2019 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)

For further information please contact:

VAT Group AG
Corporate Communications & Investor Relations
Michel R. Gerber
+41 81 772 42 55

Financial calendar 2020

Thursday, April 16, 2020	Q1 2020 trading update
Tuesday, April 28, 2020	VAT Capital Markets Day
Thursday, May 14, 2020	Annual General Meeting 2020
Thursday, August 6, 2020	Half-year results 2020
Friday, October 16, 2020	Q3 2020 trading update

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 1'800 employees and main manufacturing sites in Haag (Switzerland), Penang (Malaysia) and Arad (Romania). Net sales in the financial year 2019 amounted to CHF 570 million.

FORWARD-LOOKING STATEMENT

Forward-looking statements contained herein are qualified in their entirety as there are certain factors that could cause results to differ materially from those anticipated. Any statements contained herein that are not statements of historical fact (including statements containing the words "believes," "plans," "anticipates," "expects," "estimates" and similar expressions) should be considered to be forward-looking statements. Forward-looking statements involve inherent known and unknown risks, uncertainties and contingencies because they relate to events and depend on circumstances that may or may not occur in the future and may cause the actual results, performance or achievements of the company to be materially different from those expressed or implied by such forward-looking statements. Many of these risks and uncertainties relate to factors that are beyond the company's ability to control or estimate precisely, such as future market conditions, currency fluctuations, the behavior of other market participants, the performance, security and reliability of the company's information technology systems, political, economic and regulatory changes in the countries in which the company operates or in economic or technological trends or conditions. As a result, investors are cautioned not to place undue reliance on such forward-looking statements.

Except as otherwise required by law, VAT disclaims any intention or obligation to update any forward-looking statements as a result of developments occurring after the date of this report.