CEO Interview

How would you summarize VAT's results in 2021?
Thanks to a strong market, continued operational improvements, and a strong team of engaged employees, we delivered record orders, net sales, EBITDA, EBITDA margin and free cash flow. And we achieved that despite significant supply constraints and the ongoing COVID-19 pandemic. We're very proud of this performance and our ability to support our customers during such difficult times.

What drove the strong market demand?
The recent global semiconductor shortage prompted many chip makers to accelerate investments both in new capacity and equipment upgrades. Underlying this are ongoing megatrends, such as the Internet of Things and cloud computing, which require the development of ever-more complex chips and, in turn, more innovative vacuum valves.

How did supply constraints impact the business?
Some key raw materials, aluminum for example, were in very short supply in 2021, which drove up input costs. Some electronic components were also hard to come by. But our suppliers were very supportive, and by working together we were able to find solutions to most of our challenges. In addition, our supply management teams were able to qualify additional suppliers and secure the materials we need. I believe we're in good shape for 2022.

What impact did these pressures have on your customer relationships?
VAT places the customer at the center of everything we do. During the COVID-19 pandemic and recent supply constraints, we worked extremely hard on communications with our customers and adapting our operations to minimize the impact of any bottlenecks. Making sure we can always deliver to our customers on time and with the technology solutions they need, even when market conditions are changing quickly, has been a key management priority in recent years. In 2021, for example, in addition to securing our supply chains to meet short-term customer needs, we also added application engineering resources to help them implement their ambitious technology roadmaps, such as new valve solutions for the next generation of semiconductors. They are among the most demanding customers in the world, pioneers in their fields, and they need suppliers who can keep pace. And now that we have two major production sites and a global supply chain, we're in a much stronger position to support our customers going forward. This is a significant competitive advantage, and I'm convinced the mutual trust we have developed will support future growth.

How were you able to grow your EBITDA margin?
We are always striving to improve operational efficiency and optimize costs, and that continued in 2021. We took further steps to speed up product development and realize the benefits of our flexible global footprint, for example, by sourcing more from best-cost countries. Our margin also benefited from the volume effects of higher revenues and the introduction of great new products.

What role did your Malaysia plant play in your 2021 results?
Our strategy to build capacity at Penang has been very successful. Not only has it brought us closer to our key customers in Asia, but it also provides us with a more balanced global production and supply base. That gives us a lot more flexibility in a market that can change very quickly. We increased our factory output in Malaysia in 2021 by some 70% versus 2020, to around CHF 170 million, and significantly increased supply volumes from the region. Our engineering and product management capabilities in Malaysia are also much stronger, which means we can respond faster to meet our customers' needs in Asia.

What progress have you made on the strategy you announced in 2020?
We again outgrew the market in 2021. Our market share across all industries in 2021 was up three percentage points compared with 2020, and five percentage points higher in our core semiconductor business, where our technology lead is a significant competitive advantage. We also launched new service products to take advantage of our large installed base of valves and achieved record sales in that business.

We refocused our Advanced Industrials business to tap growth opportunities in areas such as high-end industrial coatings and metrology. We're moving into promising adjacencies, with products such as motion components and multi-valve modules. And our 2021

MICHAEL ALLISON, CEO

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EBITDA margin above 34% confirms our ability to improve operational performance.

Can you maintain growth and profitability at today’s level?
We’re still in the early stages of global digitalization and we think chip makers will continue to increase capacity in the near term. We see some rebound in displays and further growth in industrials and solar in 2022, so the overall market environment looks positive. Supply constraints will remain a short-term challenge, but operational improvements will continue to mitigate those impacts.

Is this why you updated your mid-term guidance for 2025?
Yes, we saw unprecedented market growth in 2021 and most analysts think the total market for wafer fab equipment will reach CHF 110 billion by 2025, compared with the CHF 80 billion they forecast when we first released our targets in 2020. Add to that the growth we aim to achieve through our strategic initiatives – higher market share, service growth and expansion into adjacencies related to our core valve business – and we now expect 2025 sales of about CHF 1.5 billion with an EBITDA margin of 32–37% over the cycle. This compares with the CHF 1.1 billion in sales and 30–35% EBITDA margin we communicated in 2020.

Where do social and environmental issues fit into your strategy?
Our business results, our ability to attract and retain people, and our position in the communities where we operate all depend on how well we integrate social and environmental performance into our day-to-day operations. For example, we continue to shift to renewable energy and cut raw material waste. We’re building our skills development programs, especially in Malaysia, including apprenticeship programs with local schools to become a more attractive employer. We’re expanding not only our production footprint there but also our engineering capabilities, establishing a base for long-term value creation in the region. There’s certainly more to do but I think we’re headed in the right direction.

What are your priorities for 2022?
Striking the right balance between capturing growth in a very strong market while keeping a close eye on operational performance and costs will remain a management priority. Further ramping up our capabilities in Malaysia and securing the benefits from our capital investment plans is also key. We’ll keep executing on our strategy to outgrow the market while maintaining an attractive EBITDA margin and cash flows. We’ll continue to invest heavily in our core valves technology but also in new products and adjacencies to broaden our high-value solutions for our customers. Technology and our markets are moving fast, but VAT will move faster.