VAT achieves record 2021 results driven by strong markets, improved business execution and further market share gains

The global semiconductor industry – VAT's largest market – again grew strongly in 2021. Long-term demand drivers for semiconductors continued, such as the Internet of Things, cloud computing and developments in artificial intelligence. Shorter term, the dramatic shift to remote work and the sharp increase in e-commerce that resulted from the COVID-19 pandemic generated a significant increase in the need for data storage and processing. At the same time, the demand for chips in the automotive industry also continued to grow, driven by the adoption of technologies such as driver assistance systems, autonomous driving and ongoing fleet electrification. Finally, lockdowns and other restrictions imposed during the COVID-19 pandemic created significant bottlenecks in the global semiconductor supply chain.

Record investment levels in the semiconductors industry

All of these factors led the global semiconductor industry to accelerate investments in additional capacity in both leading edge chip technologies as well as legacy platforms in 2021. Overall, global wafer fab equipment (WFE) spending grew by 40% from its previous record level in 2020, reaching almost USD 90 billion. Demand was further supported by technology advances in semiconductor design, such as the continued increase in the number of transistors that can be fit onto a chip. These new production platforms require purer vacuum conditions in combination with more process steps performed under vacuum.

Demand remained steady in the solar photovoltaic sector, where VAT provides vacuum solutions for solar panel manufacturing. Market demand in the display market was soft especially for LCD panels, whereas the bottom of the business cycle was reached in mid-2021 as orders started to grow again, especially driven by increased penetration of OLED screens.

Strong performance supported by growth strategy and flexible footprint

On the back of these strong market fundamentals, VAT benefitted from its leading market and technology position to again outgrow the market, increasing its valve market share across all industries from 55% in 2020 to about 58% in 2021. In the more technologically demanding semiconductor segment, VAT's market share reached 75%.

This was achieved through a number of targeted growth initiatives, including the launch of new service products and solutions to help customers increase the productivity of their current installed base of vacuum valve equipment. VAT also refocused it industrial business through its new Advanced Industrials business unit (formerly General Vacuum) to capture growth opportunities in areas such as specialized coatings, batteries for electric vehicles and scientific instruments.

VAT also continued to invest heavily in innovation. In 2021, R&D investments amounted to CHF 45 million, or 5% of net sales. This contributed to a record number of specification wins for new manufacturing platforms, securing a strong basis for future revenue growth.

The company also continued to reap the benefits of its flexible global footprint and the continued implementation of operational improvement measures to mitigate ongoing supply chain constraints and further reduce costs.

As a result, VAT reported record net sales, EBITDA, EBITDA margin, free cash flow and net income in 2021.

Results higher across all key performance indicators

Total order intake in 2021 amounted to CHF 1,228 million, up 69% from the previous year. The order backlog at year-end stood at CHF 461 million or 217% higher than at the end of 2020. This unusual order level partially reflects some pre-ordering by customers in the fourth quarter ahead of price increases planned for 2022. In addition, some smaller OEMs placed orders early in anticipation of further supply bottlenecks in the coming months.

Net sales in 2021 rose 30% to CHF 901 million. Net sales grew 29% in the Valves segment to CHF 729 million and Global Service sales rose 35% to CHF 172 million. Foreign exchange movements, especially in the US dollar against the Swiss franc, had a negative impact of about 3 percentage points on the 2021 net sales.

Gross profit* increased 33% compared with 2020 to CHF 571 million. The gross profit margin improved to 63% compared with 62% a year earlier despite ongoing pricing pressure in certain raw materials and components. Personnel costs reflect a 25% increase in the number of employees (measured as full-time equivalents, FTEs) to 2,540 from 2,041 a year earlier to support the strong volume growth in 2021 and the growth expectations going into 2022. Personnel costs as a percentage of sales decreased significantly from 25.4% in 2020 to 22.3% in 2021 confirming VATs operational leverage and productivity improvements.

EBITDA for the year increased by 46% to CHF 308 million, reflecting strong sales growth and execution of operational improvements. As a result, the full-year EBITDA margin improved from 30.4% in 2020 to a record 34.2%. The EBITDA margin includes a 0.6-percentage point negative impact from a change in the accounting treatment of cloud-based computing arrangements announced by the IFRS Interpretations Committee in 2021. In consequence, such costs as those for VAT's new ERP system, can no longer be capitalized but have to be expensed through the income statement as they occur and formerly capitalized costs have to be restated. In this regard, VAT's restated 2020 EBITDA margin amounts to 30.4%, –1.0 percentage points lower than originally reported. Foreign exchange movements, especially in the US dollar against the Swiss franc, had no material on the 2021 EBITDA margin.

VAT's EBIT amounted to CHF 265 million, an increase of CHF 95 million, or 56%, compared with the year before. Compared with 2020, the EBIT margin increased by about 5 percentage points to 29%. Below the EBIT line, VAT incurred substantially lower financing costs of CHF 7 million, down about 55% compared with CHF 16 million a year earlier. This is mainly the consequence of lower non-realized net foreign exchange losses on financing activities.

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

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Net sales
in CHF million

901.2

2020: 692.4

Record number of spec wins

>110

2020: 106

Earnings before taxes (EBT) increased to CHF 258 million from CHF 154 million. The effective tax rate for 2021 was 16%, slightly down from 17% in 2020. VAT expects the effective tax rate to remain in the 18–20% range going forward.

As a result of these factors, and as indicated by company management during the year, realized net income attributable to shareholders substantially increased in 2021, amounting to CHF 217.4 million, an improvement of 70% compared with 2020.

On December 31, 2021, VAT's net debt amounted to CHF 80 million, representing a leverage ratio expressed as net debt to EBITDA of around 0.3 times. The average leverage over the course of 2021 was around 0.5 times net debt to EBITDA as steady free cash flow generation continuously 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 60% compared to 55% a year earlier.

Record EBITDA and free cash flow support increased dividend proposal

One of VAT's key performance indicators and the basis for our dividend consideration is free cash flow, which in 2021 again reached a new record of CHF 196 million compared with CHF 147 million the previous year. Higher EBITDA not only offset the increase in trade working capital of about CHF 56 and higher taxes paid but also the increased capital expenditure (capex), which amounted to CHF 43 million in 2021 compared with CHF 19 million in 2020. Capex amounted to 5% of net sales in 2021, within the company's guidance of between 4–5% of sales.

At year-end 2021, net trade working capital of CHF 219 million was approximately 35% higher than the same time in 2020, but unchanged at 24% of net sales. This is above VAT's long-term target of 20% and reflects the company's growth expectations for 2022 and the current supply chain challenges which require a higher safety stock of certain materials and components.

As a result, free cash flow as a percentage of net sales was 22% and the free cash flow conversion rate was at 64% of EBITDA. Free cash flow to equity amounted to CHF 192 million compared to CHF 143 million in 2020.

At its Annual General Meeting on May 17, 2022, VAT's Board of Directors will propose a dividend for the fiscal year ending December 31, 2021, of CHF 5.50 per registered share, an increase of CHF 1.00, or 22%. CHF 5.25 of this amount will be paid from the company's accumulated gains and CHF 0.25 per registered share from the company's remaining CHF 7.8 million of reserves from capital contributions. The proposal amounts to a total dividend amount of CHF 165 million, or 86% of VAT's free cash flow to equity.