CEO Interview

How would you summarize your 2022 results?
We had a great year, breaking through CHF 1 billion in net sales and with record EBITDA, EBITDA margin and free cash flow. While we enjoyed positive market conditions for most of the year, our success really reflects our competitive advantages in market position, technology, operational strength, and our engaged and talented people.

What were the main positives in your view?
I'm very encouraged by our ability to stay ahead of the curve in our fast-changing market, despite the uncertainties that emerged during the year—inflation risks, economic slowdowns, trade tensions and the war in Ukraine. We were very successful with our specification wins on products our customers will use in future applications. And our service business continues to outperform, with very strong sales growth and an attractive EBITDA margin, which helps buffer cyclical effects.

And the biggest challenges?
It's always a challenge to balance the demands of a fast-growing market – securing capacity, developing technology, optimizing supply chains – while making sure we can quickly adjust the business to deal with the inevitable cyclical ups and downs. But our 2022 results show that we could handle those demands.

Where do you think we are in the semiconductor business cycle today?
There's a consensus in the market that spending on equipment used to manufacture semiconductors in 2023 could decrease by 20–30% from the record levels we've seen in the past few years before returning to growth in 2024. This is mainly due to slower growth from high energy costs, overall inflation, and geopolitical factors. Obviously it's difficult to forecast but we run our business on long-term metrics and those continue to look very promising.

How important is the Malaysia facility to your business?
Our ability to grow the business quickly and maintain very attractive profitability is largely due to our investments in Penang over the past few years. Our facility there gives us flexible production capacity, local engineering expertise, access to regional supply chains, and faster on-the-spot customer support. We employ some 800 to 900 people there and production capacity is up about 60% compared with a year ago. We're approaching the CHF 300-million level and we think we'll go above CHF 1 billion eventually. It's a big advantage for us and we announced last year plans to expand the facility even further in the coming years.

What are you doing to improve operational performance?
Since we aim to double sales to CHF 2 billion over the next five years, it's vital that we become even more efficient through the business cycle. That means harvesting more economies of scale from our global footprint. In 2022, we invested some CHF 20 million in Malaysia to build flexibility and get closer to customers. We increased sourcing from best-cost countries. Our new ERP system is up and running, which will not only speed up our internal processes and give us better visibility on the business, but will also improve the customer experience which will help us capture a greater share of wallet. We're also investing in digital infrastructure around product design and modelling to speed up time-to-market. A sharper focus on sustainability also drives operational excellence. We use our resources more efficiently, which means streamlined manufacturing processes, lower energy consumption and costs, replacing harmful chemicals, smarter packaging and less waste.

How are measures to "reshore" chip production impacting your business?
So far, we haven't seen any significant impacts. Our global footprint means we are locally present to meet our customers' needs, wherever they are, so we're agnostic about where the production takes place. Reshoring could lead to higher capital expenditures by some customers to build new capacity. Geopolitical pressures always create some level of market uncertainty and our job is to be ready for whatever comes.

MICHAEL ALLISON, CEO

“I’m very encouraged by our ability to stay ahead of the curve in our fast-changing market.”

Are you seeing any changes in the long-term demand outlook?

Digitalization remains the biggest growth driver: cloud computing, smart devices and the Internet of Things, e-mobility, 5G wireless networks, artificial intelligence. That’s why we say “We change the world with vacuum solutions.” VAT valves really are mission-critical to the Digital Revolution. That includes the development of ever-smaller and more energy-efficient chips using the most advanced vacuum valve solutions with more vacuum steps involved. This is the fastest-growing part of the market where we are by far the strongest player.

But we’re also seeing new trends emerging. For example, renewable energies can only be integrated into existing power grids using large power semiconductors. Vacuum-based processes are also used to provide specialized coatings for batteries, in new carbon capture technologies and generating electricity from nuclear fusion. So the long-term picture remains very favorable.

What progress have you made in driving a sustainability culture in VAT?

We published our first Sustainability Review in 2022, partly to signal our ambition to be among the best-in-class in environment, social responsibility and governance, or ESG. There we showed some of the measures we have taken to lower our carbon footprint, reduce emissions and waste, and to live up to our ESG responsibilities. At our Capital Markets Day in December, we also showed that ESG is one of our key strategic pillars for the period 2022–2027 and you can expect us to provide a clear ESG roadmap during 2023. We’ll have a big focus on Malaysia to build engagement with the community. We’ve implemented governance changes at the Board and committee structure, and in our articles of association. We’ll also be introducing ESG-based incentives for members of our executive management team.

Would you consider an acquisition as a way to generate more value?

We’re very selective in this regard, mainly because we already have industry-leading profitability. Most acquisition opportunities we see don’t provide the technology differentiation that would match our current profitability. So we remain focused on organic growth, building our capabilities in adjacencies such as motion control, and incubating new technologies we think will be key for future semiconductor designs.

What will be the management team’s main focus in 2023?

We believe our 2022 results show our strategy is the right one and we have the people to execute it successfully. So we’ll remain focused on the key pillars we described at our capital markets day: building our market share in the core valves business; creating additional growth through new offerings in adjacencies, such as motion control and advanced modules; building stronger operational capabilities; and executing our ESG strategy to make sure we create value for all our stakeholders.