VAT again delivers record results in 2022 on strong demand, market leadership and operational flexibility

In 2022, the global semiconductor industry – VAT's largest market – continued the strong growth that began in 2020. Driven by long-term demand drivers, such as the Internet of Things, cloud computing, wireless communications and artificial intelligence, capital investments reached record levels.

For most of the year, chip manufacturers also continued to address the global chip shortage that began during the COVID-19 pandemic by expanding capacity in both the leading-edge chip technologies for node sizes of 7 nanometers and below, as well as legacy platforms. They also continued to invest in additional services – such as product upgrades and retrofits – to increase the productivity of their existing assets.

Customer investments in new equipment began to moderate in the fourth quarter, however, as short-term demand drivers, such as consumer spending, weakened in response to increasing inflation risks, slower economic growth in key markets and geopolitical uncertainties.

Record semiconductor spend, industrial and solar stronger

Global wafer fab equipment (WFE) spending grew by around 9% in 2022 versus the previous record in 2021, reaching approximately USD 95 billion*. Growth was seen in both memory chips used in data storage as well as logic applications needed for data processing.

Demand was driven by higher unit demand and technology advances in semiconductor design as node sizes continue to shrink to 7 nanometers and smaller. These new production platforms require purer vacuum conditions in combination with more process steps performed under vacuum, leading to greater demand for VAT's high-end valve solutions. Very high capacity utilization in the semiconductor industry also drove record sales in the Global Service segment.

* Source: TechInsights/VLSI, January 2023

Net sales
in CHF million

1,145

2021: 901

Industrial markets were stronger in several sectors, especially scientific instruments that require high vacuum conditions for electron beam applications. Demand in industrial coatings was flat, in part reflecting market softness in consumer electronics spending as the result of higher inflation and other macroeconomic uncertainties.

Solar photovoltaic markets continued to show strong demand, especially from China, while demand in the display market remained soft.

Continued focus on technology and operational excellence
VAT continued to make significant investments in technology innovation, which is a major driver of both growth and profitability. In 2022, R&D investments amounted to CHF 50 million, or 5% of net sales.

Specification wins, in which VAT successfully collaborates with customers to develop new tools for coming generations of semiconductor equipment, remained at high levels in 2022. These help consolidate VAT's market lead and provide a clearer view of future sales.

VAT also continued to reap the benefits of its flexible global footprint by expanding production in Malaysia by about 60% to over CHF 270 million. In addition, the company continued to make operational improvement, especially in the area of procurement, as supply chain challenges persisted in 2022. Cost reduction measures, coupled with certain price increases, helped offset rising input costs from higher raw materials, energy, and logistics expenses.

Third consecutive year of record results
Against this background of strong demand, continued market and technology leadership and improving operational performance, VAT reported record net sales, EBITDA, EBITDA margin, free cash flow and net income in 2022.

Total orders amounted to CHF 1,210 million, down 2% from 2021, primarily the result of the comparison with very strong orders in the fourth quarter of last year when many customers placed orders early in order to manage expected supply bottlenecks. The order backlog at the end of 2022 stood at CHF 518 million, 12% higher than at the end of the previous year. This increase partly reflects delays in executing orders because of supply constraints.

Group net sales in 2022 reached a new record of CHF 1,145 million, up 27% versus the previous year. Net sales achieved record levels in both the Valves and Global Service segments, growing 28% in Valves to CHF 933 million and 24% higher to CHF 213 million in Global Service. Foreign exchange movements, especially in the US dollar against the Swiss franc, had no material impact on 2022 Group net sales.

EBITDA margin
EBITDA as % of net sales

35.0

2021: 34.2

Net income
in CHF million

306

2021: 217

Gross profit* increased 29% compared with 2021 to CHF 734 million. The gross profit margin improved to 64% compared with 63% a year earlier, despite ongoing price pressure in certain raw materials and components.

Confirming VATs operational leverage and productivity improvements, personnel costs as a percentage of net sales decreased to 20% in 2022 from 22% a year earlier. Personnel costs increased 14% in absolute terms as the result of an 18 % increase in the number of employees (measured as full-time equivalents, FTEs) to 2,991 from 2,540 a year earlier.

EBITDA for the year increased by 30% to CHF 400 million, reflecting strong sales growth and execution of operational improvements. As a result, the full-year EBITDA margin improved from 34.2% in 2021 to a record 35.0%. Foreign exchange movements, primarily in the US dollar against the Swiss franc, had a positive impact of 0.1 percentage points on the reported 2022 EBITDA margin.

VAT's EBIT amounted to CHF 359 million, an increase of CHF 95 million, or 36%, compared with the year before. Compared with 2021, the EBIT margin increased by about 2 percentage points to 31%.

Below the EBIT line, VAT incurred substantially lower financing costs of CHF 3 million, less than half of the CHF 7 million reported a year earlier. This is mainly the consequence of higher finance income due to an adjustment of contingent considerations in connection with the change in timing expectations of revenues. At the same time, interest expense declined due to lower net foreign exchange losses on financing activities and lower other finance expenses.

Earnings before taxes (EBT) increased to CHF 356 million from CHF 258 million, up 38%. The effective tax rate for 2022 was 14%, down from 16% in 2021, driven by higher profits from Swiss entities, where statutory tax rates are lower.

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 307 million, an improvement of 41% compared with 2021.

On December 31, 2022, VAT's net debt amounted to CHF 37 million, representing a leverage ratio expressed as net debt-to-EBITDA of around 0.1 times. The year-end leverage improved by 0.2x compared with a year earlier. Average leverage over the course of 2022 was around 0.3 times net debt-to-EBITDA, as steady free cash flow generation continuously re-

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

duced net debt after the seasonal peak at the end of May when VAT paid its dividend. The equity ratio at year-end amounted to 61% compared with 60% a year earlier.

Record EBITDA and free cash flow support increased dividend proposal
One of VAT's key performance indicators and the basis for its dividend consideration is free cash flow, which in 2022 reached a record CHF 228 million compared with CHF 196 million the previous year. Higher EBITDA not only offset the increase in trade working capital of about CHF 80 million and higher taxes paid but also higher capital expenditure (capex), which amounted to CHF 66 million in 2022 compared with CHF 44 million in 2021.

Capex amounted to approximately 6% of net sales in 2022, slightly above the company's guidance of 4–5% of sales. This is mainly due to investments in production capacity in Malaysia, where VAT is in the process of establishing a second factory scheduled to be opened in 2024, and investments in a new technology center in Haag, Switzerland.

At year-end 2022, net trade working capital amounted to CHF 297 million, approximately 36% higher than at the same time in 2021. Net trade working capital represented 26% of sales, a 2-percentage-point increase versus 2021, mainly due to the build-up of a buffer to meet supply chain constraints related to the high order backlog.

As a result, free cash flow as a percentage of net sales was 20% and the free cash flow conversion rate was at 57% of EBITDA. Free cash flow to equity amounted to CHF 225 million compared with CHF 192 million in 2021.

At its Annual General Meeting on May 16, 2023, VAT's Board of Directors will propose a dividend for the fiscal year ending December 31, 2022, of CHF 6.25 per registered share, an increase of CHF 0.75, or 14%. The whole amount of CHF 6.25 will be paid from the company's accumulated gains. The proposal amounts to a total dividend amount of CHF 187.5 million, or 83.5% of VAT's free cash flow to equity.

Display and solar businesses realigned within Valves segment for 2023
As of Jan. 1, 2023, the Display & Solar business unit was dissolved, with the display business integrated into the Semiconductor business and the Solar business moved to the Advanced Industrial business unit. The moves are aimed at taking advantage of synergies and scale economies related to technology, business drivers and customer needs.

Sales guidance 2027
in CHF million

~2,000

2022 actual: 1,145