Improving market conditions through 2024 expected to lead to better annual results

VAT expects investments in semiconductor manufacturing equipment to gradually improve over the course of 2024 as investments – especially in the memory sector – are anticipated to recover from the lower levels seen in 2023.

However, short-term market factors such as slower progress on reducing inflation, concerns about the overall strength of the global economy, or ongoing geopolitical tensions represent uncertainty factors influencing the timing and magnitude of the expected recovery.

Another factor of uncertainty is the speed of investment in China's domestic semiconductor manufacturing capabilities. Massive additions to China's domestic manufacturing capabilities, mainly in the memory space but also in certain logic types, occurred during 2022 and 2023. While these investments happened in the so-called lagging edge nodes it nevertheless made up a large portion of the 2023 global WFE spend. Estimates by SEMI.org indicate that about 34% of global semiconductor investments in 2023 were carried out in China, a full eight percentage points more than in 2022. Whether this level of investment is maintained in 2024 is not obvious and it is also unclear how much the other large semiconductor nations in Asia like Taiwan, Korea or Japan will increase their investment amounts.

This uncertainty is also displayed in the rather wide range of WFE growth expectations by the semiconductor market research firms. On average, these firms look at WFE spend in 2024 between USD 90 – 100 billion with accelerated double digit growth in 2025.

This development is expected to benefit the semiconductor exposure in the Valves business and the Global Service business at VAT. Being the undisputed technology and market leader is expected to benefit the company in the anticipated recovery, especially as a large part of the spend will be geared towards the leading-edge technologies in both the logic and the memory area. In addition, VAT expects further growth in adjacent products such as advanced modules or motion components. Increasing factory capacity utilizations in the existing fabs will, on the other hand increase the requirement for spare parts and consumables for our service business. Together with the growing installed base of serviceable VAT products, Global Service is expected to grow again in 2024. The continued expansion of vacuum-based manufacturing into industries such as industrial coatings and e-beam applications is expected to benefit the Advanced Industrials business, while solar photovoltaic demand is expected grow as the transition to renewable energies continues in most parts of the world.

On this basis, VAT expects full-year sales and EBITDA in 2024 to be higher compared to 2023. The EBITDA margin is also expected to increase, however the expected continuing strength of the Swiss franc against VAT's trading currencies will continue to present some headwinds to the company's margin recovery.

In 2024, VAT will complete construction of the new production facility in Malaysia, thereby ramping-up production and engineering services in Penang. At the same time, significant investments in R&D will also continue, including the new Innovation Center in Switzerland.

Net income and free cash flow are also expected to be higher, capex is forecast at CHF 70 – 80 million.