Media Release

Haag, Switzerland, August 2, 2018

Near-record sales in the second quarter; strong sales and EBITDA growth in the first six months of 2018

Q2 2018 highlights

- VAT continued to invest in future growth and quickly adjusted to moderation of market conditions
- Net sales up 17%; orders down 13%
- Swift reaction to the changing environment, cost reduction thanks to flexible structure

Half-year 2018 highlights

- Demand growth for manufacturing equipment in semiconductor and displays continued
- Net sales up 18%; order intake plus 2% reflecting anticipated moderation of activities in second half
- EBITDA plus 24%; EBITDA margin up 150 bps to 31.6% and EBIT margin up 330 bps to 27.2%; reflects easing of costs related to investments in future growth

Outlook 2018

- VAT now expects mid-single digit sales growth at constant FX
- EBITDA margin to be maintained at around half-year number
- CAPEX to be around 8% as a consequence of the expected slower top-line growth
- Free cash flow expected to exceed 2017 amount

Q2 2018

In CHF million	2018	2017	Change
Order intake	**165.6**	190.2	-12.9%
Net sales	**188.8**	161.9	+16.6%

Half-year 2018

In CHF million	2018	2017	Change
Order intake	**380.9**	372.0	+2.4%
Net sales	**386.6**	326.4	+18.4%
EBITDA	**122.1**	95.3	+28.1%
Adjusted EBITDA[1]	**122.1**	98.2	+24.3%
Adjusted EBITDA margin[1]	**31.6%**	30.1%	-
EBIT margin	**27.2%**	23.9%	-
Net income	**83.6**	59.5	+40.6%
Earnings per share (EPS, in CHF)	**2.79**	1.99	+40.6%
CAPEX[2]	**33.7**	17.6	+92.0%
Free cash flow[3]	**47.3**	54.1	-12.7%
Number of employees	**1'927**	1'746	+181

[1] Adjusted EBITDA in 2017 excludes IPO-related one-off items of CHF 2.9 million
[2] CAPEX contain purchases of property, plant equipment and intangible assets and proceeds from sale of property, plant and equipment
[3] Free cash flow is calculated as cash flow from operating activities minus cash flow from investing activities

VAT posts near-record sales in the second quarter and continued to see strong sales and EBITDA growth in the first six months of 2018

Near-record sales in the second quarter of 2018 confirmed VAT's leadership position in high-vacuum valves. Demand for digital products such as solid state memory devices, logic chips, and displays, whose manufacture depends heavily on VAT's valves, remained at record-high levels. However, the slowing in the investment cycle, anticipated already after the first quarter of 2018, especially in the semiconductor segment, started to materialize in the second quarter, leading to substantially softer orders from our key customers compared with previous quarters.

In the second quarter of 2018, all business segments reported higher net sales; orders grew in the Industry segment, were flat in Global Service, and declined in Valves. Group order intake in the second quarter of 2018 was CHF 166 million, a decline of 13% on the prior-year period. Group net sales in the quarter were CHF 189 million, an increase of 17%.

Key market drivers remain positive

In the first six months of 2018, demand for new manufacturing equipment in the semiconductor, display, solar, and general vacuum markets remained high, driven by the implementation of technological advances in semiconductors, end-market growth for memory and logic chips, and investments in large LCD displays. In addition to this, VAT's general vacuum business gained momentum, as remaining supply chain issues, experienced in 2017 and at the beginning of the year, were resolved.

While growth in demand for high-performance semiconductors remained strong, driven by digitalization, cloud computing, the Internet of Things, and advances in electric transportation, it became apparent during the quarter that some projects, especially on the memory side of our business, were pushed out until late 2018 or even into 2019 as the substantial capacity additions need to be digested.

While these pushouts are not likely to mark the beginning of a lasting down cycle, a temporary lull in demand for additional manufacturing equipment should be expected.

In the display business, lower-than-expected sales and projections for high-end smartphones have led to a slowdown in investment in new OLED capacity for these devices. In addition, the transition from large LCD TV screens to OLED models is progressing at a slow pace, mainly because the advantages of OLED compared to LCD, such as lower energy consumption, higher brightness, and stronger colors, are less critical for TVs than they are for mobile devices. This is confirmed by a wave of new investments in Gen 10.5 manufacturing tools for large – 65-inch – LCD screens. These investments are driving demand for new transfer valves of up to 4 meters in width manufactured by VAT.

All business segments grew net sales year on year

In the first half of 2018, VAT's order intake was CHF 381 million, an increase of 2% compared with the previous year. The order backlog at the end of June was CHF 159 million, 4% lower than at the end of 2017.

Order growth in the first six months of the year was the highest in the Industry segment, up 18% to CHF 24 million, followed by the Valves segment, up 2% to CHF 303 million, and a flat development in Global Service, CHF 54 million.

Group net sales of CHF 387 million for the first six months were 18% higher than a year ago. Foreign exchange rate movements in the first six months of the year had no impact on net sales.

In the largest business segment, Valves, the strongest percentage growth was posted by the General Valve business unit, which benefited from resolving remaining production bottlenecks for its products. It was followed by Displays and Semis, while sales in Modules remained flat.

In the semiconductor business unit, a major OEM customer released the latest leading-edge valve from our production site in Malaysia, and the Zero Particle ATM door was successfully certified in field operations. The General Vacuum business unit successfully secured a number of large orders in R&D and aerospace, as well as captured business opportunities in the fragmented surface coating environment. Displays secured a large package order in solar from China, with the potential for follow-up orders. In addition, the shift toward larger substrate sizes benefited the large transfer valve business. Even though sales in Modules were flat, primarily due to a softening NAND business, the unit successfully specified several module and motion solutions, with turnover expected to materialize in 2019.

The strongest growth in the Global Service segment was in spare parts and repairs. Orders remained flat as customers have been reducing their inventory of spare parts and consumables. The retrofit business is waiting for the finalization of several qualification processes that have started in the second quarter. The main focus of the segment in the first six months of 2018 was on accelerating the turnaround in its repair centers and expanding its service footprint in Asian countries, with the emphasis on local field support and service availability outside regular business hours.

In the Industry segment, growth was driven by the vacuum bellows product segment, which continued to benefit from growth in the semiconductor market. In addition, the generally positive global economic environment helped our automotive business and sales to a variety of industries.

Investments in current and future growth slow EBITDA expansion

Gross profit for the first six months of 2018 amounted to CHF 236 million, a plus of 14%. The gross margin, however, declined to 61%, mainly the result of a higher level of outsourcing and the adverse impact of foreign exchange movements on materials purchased.

EBITDA for the first half of the year improved by 24% to CHF 122 million, and the EBITDA margin increased to 31.6% from 30.1% a year earlier. The main factor behind the improved EBITDA margin was a reduction in the costs associated with the capacity ramp-up in the same period a year ago.

VAT reported net finance costs of CHF 5 million for the first six months, a year-on-year decline of CHF 2 million. This was the result of the harmonization of the group’s financing structure, with financial debt now split between a five-year revolving credit facility of USD 300 million and a new five-year CHF 200 million bond issued on May 23, 2018.

The effective tax rate for the first six months of 2018 was 16%, slightly lower than the 17% recorded for the first half year of 2017. The lower tax rate in 2018 mainly resulted from a lower tax rate in the US due to the US tax reform.

As a result of the positive developments in operating results and slightly lower net finance and tax expenses, VAT posted net income attributable to shareholders of CHF 84, an increase of 40% over the same period a year earlier.

On June 30, 2018, net debt amounted to CHF 222 million, representing a leverage ratio (net debt to EBITDA) of 1.0 times on a last 12-month (LTM) basis. The equity ratio on June 30, 2018, was 49%.

Free cash flow generation on track

Free cash flow amounted to CHF 47 million during the first six months, in line with management expectations, but around 13% below the 2017 level. The main reason was a substantially higher CAPEX spend of CHF 34 million compared with CHF 18 million a year earlier. VAT's expansion of its production facility in Malaysia is on schedule, with the first production in the expanded area expected to commence during the third quarter of 2018. In addition, net trade working capital increased to around 24% of LTM net sales, mainly due to inventory increases in consignment stocks for a large OEM customer.

In absolute terms, net trade working capital increased by CHF 54 million to CHF 193 million compared with the level at December 31, 2017.

As a result of the factors described above, free cash flow margin for the first six months of the year came to 12%, and the free cash flow conversion rate was 39% of EBITDA.

At the end of June 2018, VAT had 1,927 employees worldwide, an increase of 181, or 10% mainly in Malaysia, on the level a year ago, and about the same as at the end of 2017.

Outlook 2018

The growth drivers of VAT's high-vacuum valve business such as the digitalization of our daily life and the resulting increase in data storage capacity or ever better displays continue. However, as announced at our Q1 2018 trading update, the expected moderation of the overall business climate materialized during the second quarter. Industry capex spend, mainly in the semiconductor area, have been pushed out into late 2018 or into 2019, resulting in slower order activities from our large semiconductor OEM customers. The markedly improved results from our general vacuum, service and industrial activities will not be able to offset this moderation in the second half of 2018.

For 2018, VAT therefore expects now to grow full-year net sales by a mid-single digit rate at constant foreign exchange rates. While the mid-term EBITDA margin target of 33% by 2020 remains in place, the company now foresees the full-year EBITDA margin to be maintained at around half-year number.

Full-year net income and earnings per share (EPS) are expected to grow substantially as items below the EBITDA line, such as finance costs or taxes, are not expected to deteriorate during the second half of the year compared to the first six months of 2018.

The capacity expansions, mainly in Malaysia and Romania, are on track. As a consequence of the expected slower top-line growth, overall capital expenditures is foreseen to be around 8% of net sales in 2018 before returning to the level of about 4% of net sales in the following years.

Free cash flow expected to exceed 2017 amount.

Segment results Q2 and six months 2018

VALVES

in CHF million	Q2 2018	Q2 2017	Change	6M 2018	6M 2017	Change
Order intake	**128.1**	153.6	-16.6%	**303.3**	297.9	+1.8%
Net sales	**153.7**	131.1	+17.2%	**313.0**	263.8	+18.6%
Inter-segment sales	**9.8**	9.2	+6.5%	**21.1**	17.6	+20.3%
Segment net sales	**163.5**	140.3	+16.5%	**334.1**	281.4	+18.7%
Segment EBITDA				**116.1**	80.8	+43.8%
Segment EBITDA margin[1]				**34.8%**	28.7%	

GLOBAL SERVICE

in CHF million	Q2 2018	Q2 2017	Change	6M 2018	6M 2017	Change
Order intake	**25.8**	26.2	-1.5%	**53.6**	53.6	+0.0%
Net sales	**24.0**	21.7	+10.7%	**50.7**	43.5	+16.7%
Inter-segment sales	**-**	-	-	**-**	-	-
Segment net sales	**24.0**	21.7	+10.7%	**50.7**	43.5	+16.7%
Segment EBITDA				**24.3**	19.4	+25.3%
Segment EBITDA margin[1]				**47.8%**	44.5%	

INDUSTRY

in CHF million	Q2 2018	Q2 2017	Change	6M 2018	6M 2017	Change
Order intake	**11.7**	10.3	+13.4%	**24.1**	20.5	+17.6%
Net sales	**11.1**	9.1	+22.4%	**22.9**	19.1	+19.7%
Inter-segment sales	**6.3**	5.4	+16.7%	**13.1**	11.4	+14.4%
Segment net sales	**17.4**	14.6	+19.4%	**36.0**	30.6	+17.7%
Segment EBITDA				**6**	6.8	-11.8%
Segment EBITDA margin[1]				**16.5%**	22.1%	

[1] Segment EBITDA margin as a percentage of Segment net sales

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Additional information

The analyst presentation of the results and the 2018 half-year report are available on VAT's website at www.vatvalve.com.

VAT will host a media and investor event today in Zurich at 10 a.m. CET. The event can be followed over a webcast or via conference call. Participants of the conference call will also be able to join the moderated Q&A session.

Please follow the link below to access the webcast:

Live Webcast

For the conference call please dial:

+41 58 310 50 00 (Europe)

+44 207 107 0613 (UK)

+1 631 570 5613 (USA)

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Financial calendar

2018	**Event**
Thursday, October 25, 2018	Q3 2018 trading update

2019	**Event**
Friday, March 8, 2019	Full-year 2018 results
Tuesday, April 16, 2019	Q1 2019 Trading update
Thursday, May 16, 2019	Annual General Meeting

ABOUT VAT

VAT is the leading global developer, manufacturer and supplier of high-end vacuum valves. VAT vacuum valves are mission-critical components for advanced manufacturing processes of innovative products used in daily life such as portable devices, flat screen monitors or solar panels. VAT is organized into three different reporting segments: Valves, Global Service and Industry offering high-end vacuum valves, multi-valve modules, edge-welded bellows and related value-added services for an array of vacuum applications. VAT Group is a global player with over 1'900 employees and main manufacturing sites in Haag (Switzerland), Penang (Malaysia) and Arad (Romania). Net sales in the financial year 2017 amounted to CHF 692 million.

FORWARD-LOOKING STATEMENT

Forward-looking statements contained herein are qualified in their entirety as there are certain factors that could cause results to differ materially from those anticipated. Any statements contained herein that are not statements of historical fact (including statements containing the words “believes,” “plans,” “anticipates,” “expects,” “estimates” and similar expressions) should be considered to be forward-looking statements. Forward-looking statements involve inherent known and unknown risks, uncertainties and contingencies because they relate to events and depend on circumstances that may or may not occur in the future and may cause the actual results, performance or achievements of the company to be materially different from those expressed or implied by such forward-looking statements. Many of these risks and uncertainties relate to factors that are beyond the company’s ability to control or estimate precisely, such as future market conditions, currency fluctuations, the behavior of other market participants, the performance, security and reliability of the company’s information technology systems, political, economic and regulatory changes in the countries in which the company operates or in economic or technological trends or conditions. As a result, investors are cautioned not to place undue reliance on such forward-looking statements.

Except as otherwise required by law, VAT disclaims any intention or obligation to update any forward-looking statements as a result of developments occurring after the date of this report.