Fourth quarter and full-year results 2019

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Fourth-quarter and full-year results 2019

March 3, 2020

Agenda

1	Highlights	Mike Allison, CEO
2	Fourth-quarter and full-year 2019 financial review	Stephan Bergamin, CFO
3	2020 priorities, conclusion and outlook	Mike Allison, CEO

Improving market conditions in Q4 as bottom of market down-cycle has been passed

Sequential quarterly sales up in Semi and Display; flat in General Vacuum and Industry; slightly down in service	Continued focus on cost, technology and innovation; 4% increase in R&D employees in 2019	Market share gains continue in 2019; record spec wins bode well for future success
Focus on Global Service yields in above-market service performance despite semi cycle	Strong EBITDA margin recovery in H2 2019 demonstrates cyclical resilience of business model	Market expectations for 2020 turning optimistic with some short-term challenges around the coronavirus

Low-cycle full-year EBITDA margin well above previous troughs

Segment (% of total net sales)	VAT Group AG (100%)	Valves (77%)	Global Service (20%)	Industry (3%)
				
Net sales	CHF 570m	CHF 441m	CHF 112m	CHF 18m
EBITDA margin[1]	27.0%	27.7%	41.5%	11%

[1] Margin based on segment net sales

Market trends remained mixed across all our major business segments in 2019

Semiconductors
- WFE investments down 10%, driven by memory; foundry and advanced logic strong
- Technology advances continue, industry preparing for next upcycle

Display
- Overall investments in display equipment down as LCD investment cycle fades
- OLED projects for mobile stronger in H2 and this trend should continue in 2020

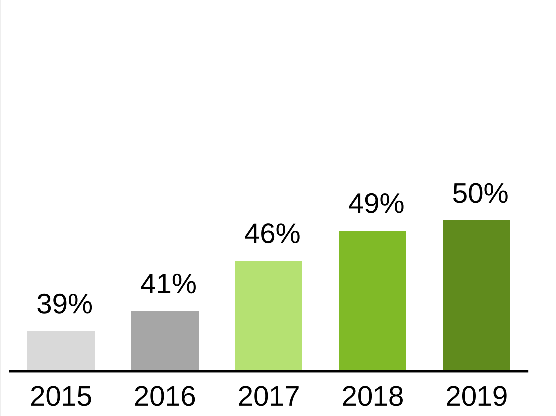
Solar
- PERC remains major technology, heterojunction Technology still challenging
- Market demand for new PV manufacturing equipment declined versus 2018

Industry & Research
- Growth prospects continue in several industrial applications, including batteries, medical etc.
- Research spending by governments slightly down but optimistic for 2020

No 1 market position further strengthened – specification wins remain on high level

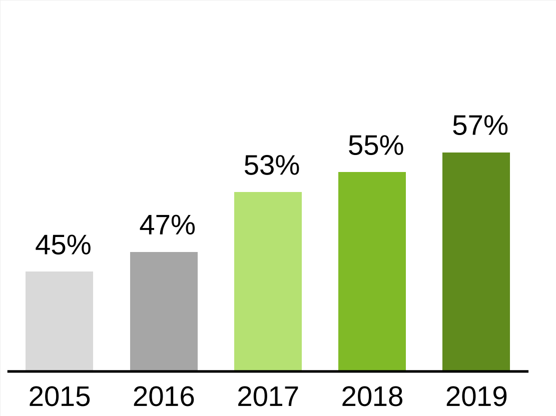
Market share All Industries [1]

Total vacuum valve market size
2015: USD 804m
2016: USD 969m
2017: USD 1’179m
2018: USD 1’138m
2019: USD 868m



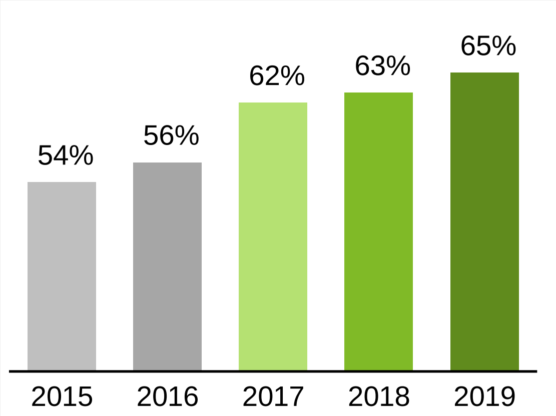
Market share Semi & Related [2]

Total vacuum valve market size
2015: USD 531m
2016: USD 688m
2017: USD 855m
2018: USD 807m
2019: USD 581



Market share Semi [3]

Total vacuum valve market size
2015: USD 350m
2016: USD 400m
2017: USD 539m
2018: USD 502m
2019: USD 369m



Source: VLSI Research February 2020, 2019 full-year date preliminary
[1] All Industries includes semi & related, general vacuum.
[2] Semi & related includes Semiconductors, Displays, Solar, LED Lighting, Hard Disk Drive.
[3] Semi includes Semiconductors, LED and HDD

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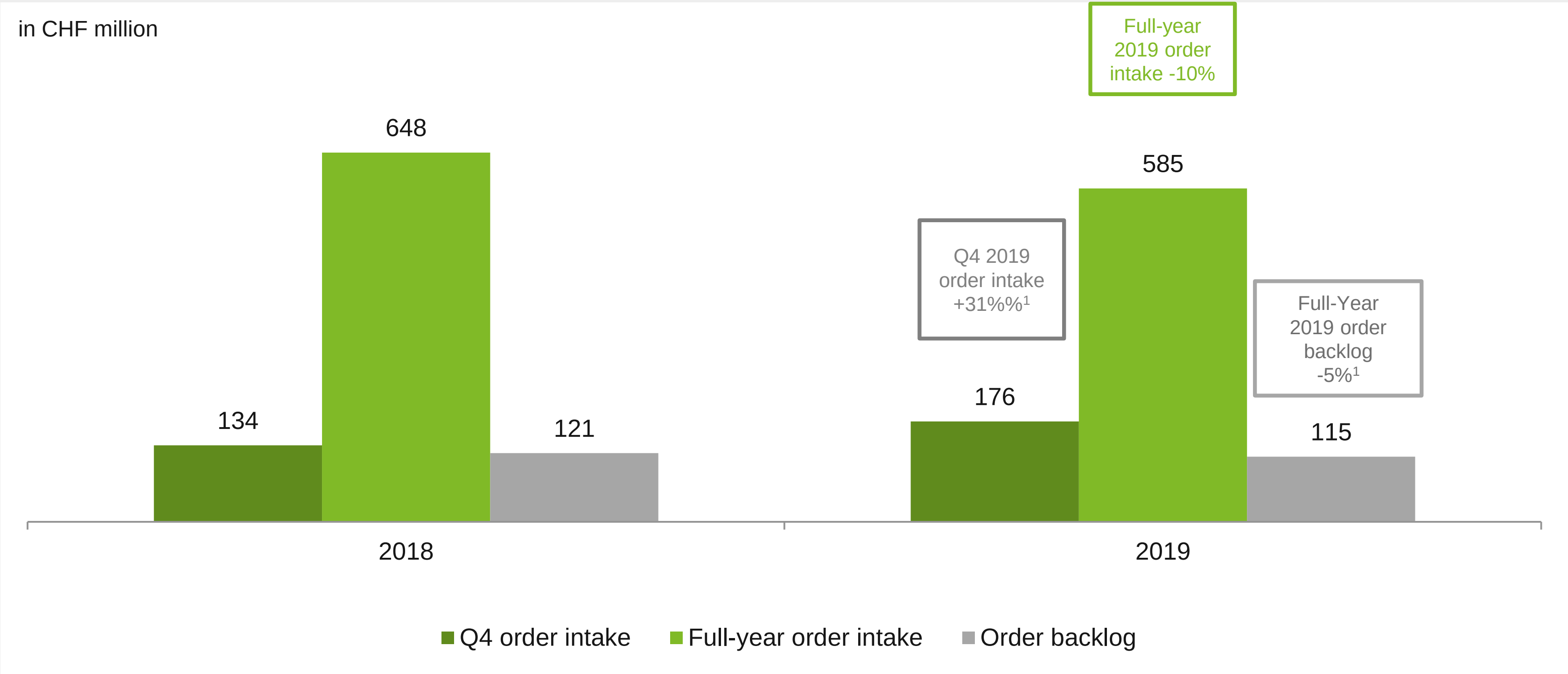
Full-year 2019 – Group key figures

Third party net sales CHF 570 m -18%	EBITDA CHF 154 m -28%	EBITDA margin 27.0% (-3.8pp) EBIT margin 18.9% (-6.8pp)
Free cash flow CHF 140 m +13%	Free cash flow margin 24.5% (+6.8pp) Free cash flow conversion 91% (+33.3pp)	Net debt/EBITDA 0.9x

Q4 19 order intake 31% above Q4 18, confirms business improvement during 2019; full-year orders down as expected

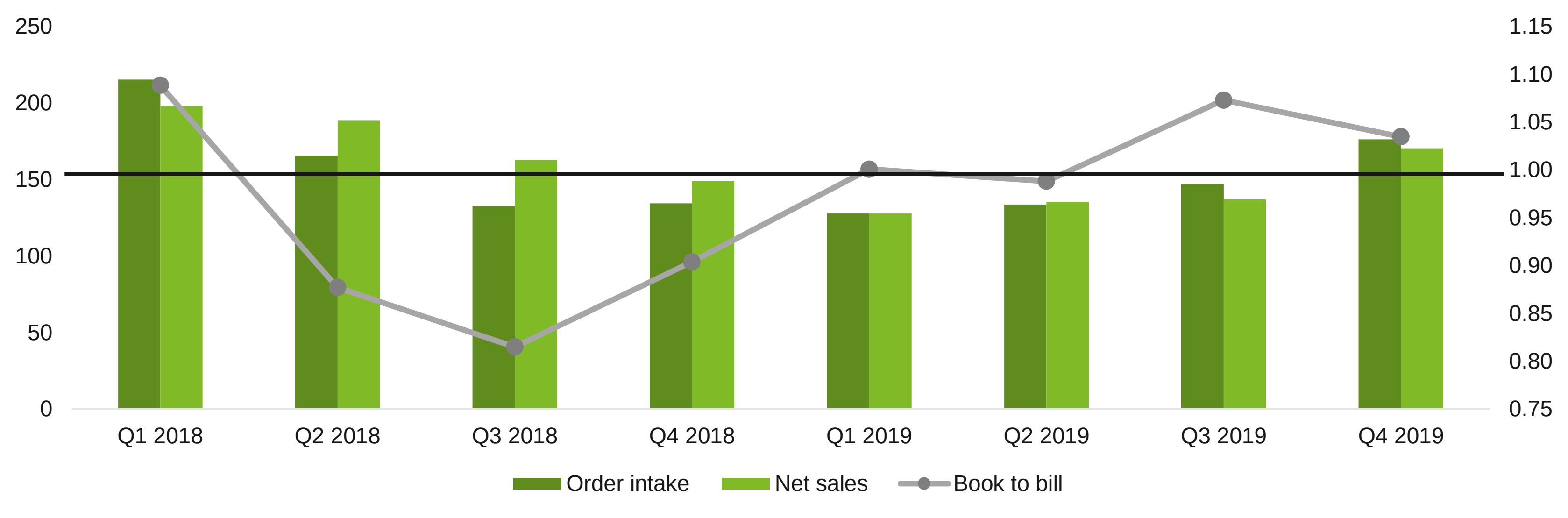


[1]Order backlog as of September 30, 2019 and December 31, 2019; year-end 2019 backlog negatively impacted by cancellation of a sizeable order from China

Product mix partly offsets lower volumes

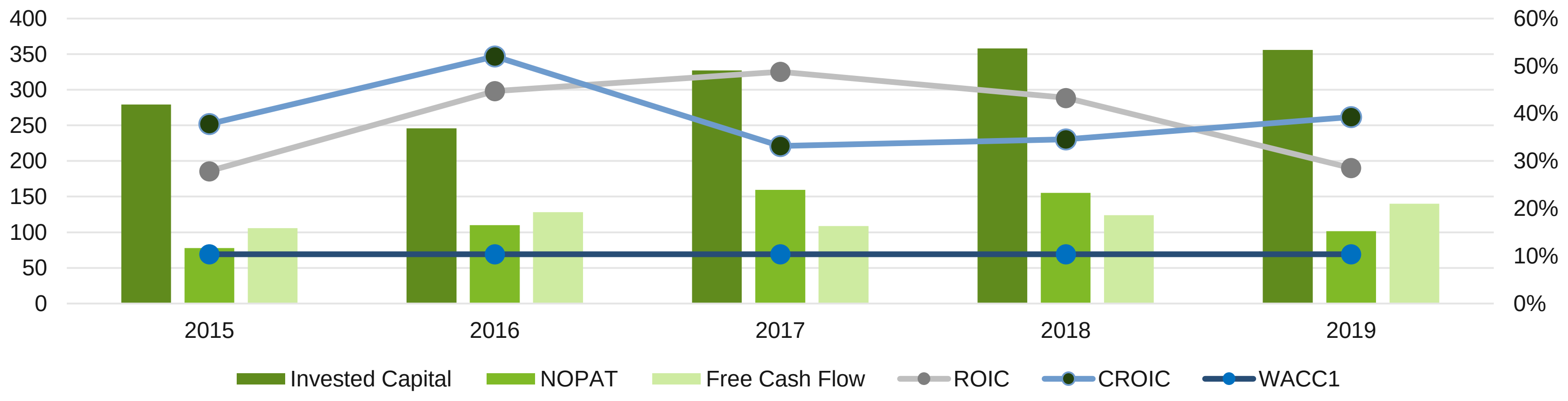
- Volume declines driven mainly by Semi and Display and to a smaller extent General Vacuum, offsetting improvements in Global Service
- Product mix improvements confirm innovation capabilities, stable pricing and very limited FX impact

Gradual recovery following the sharp decline in business activities after two years of record sales in 2016/17



- Order and sales passed down cycle in Q1 2019, consecutive improvements over the rest of 2019
- Q4 2019 book-to-bill ratio at or above 1x for the fourth consecutive quarter

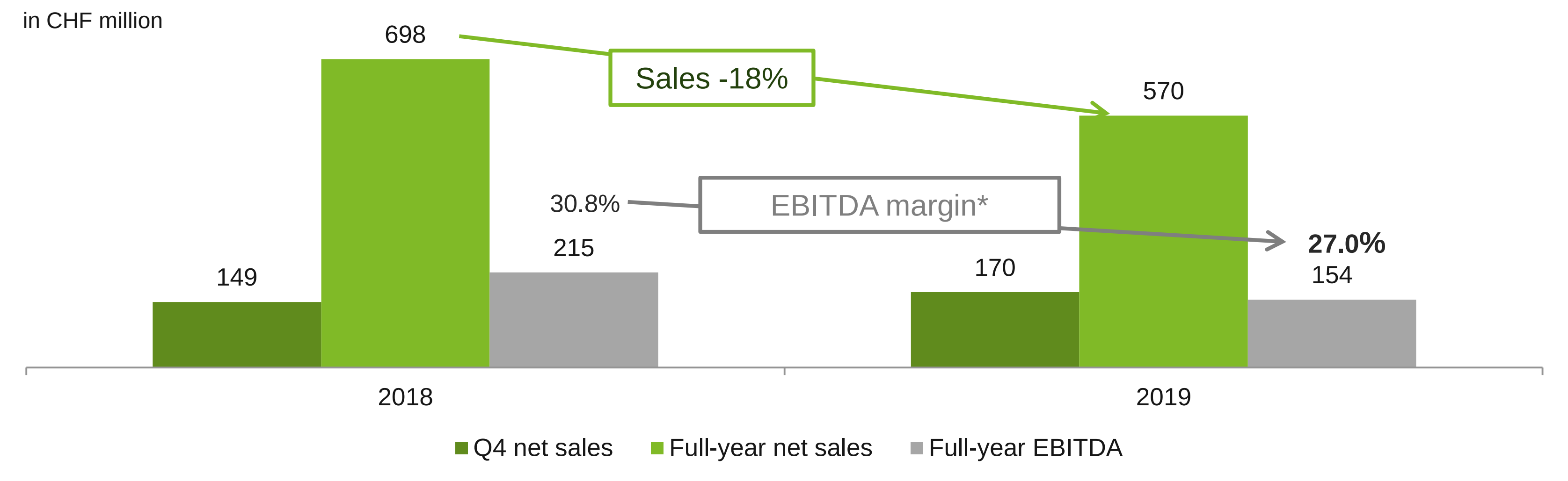
VAT’s business model generates consistently high economic profit on invested capital



- The return on invested capital (ROIC) and the cash return on invested capital (CROIC) are both substantially above the Group’s weighted average cost of capital (WACC, 10.4% as used in the 2019 impairment test)
- Sustainable generation of economic profit over the cycle benefits all VAT stakeholders

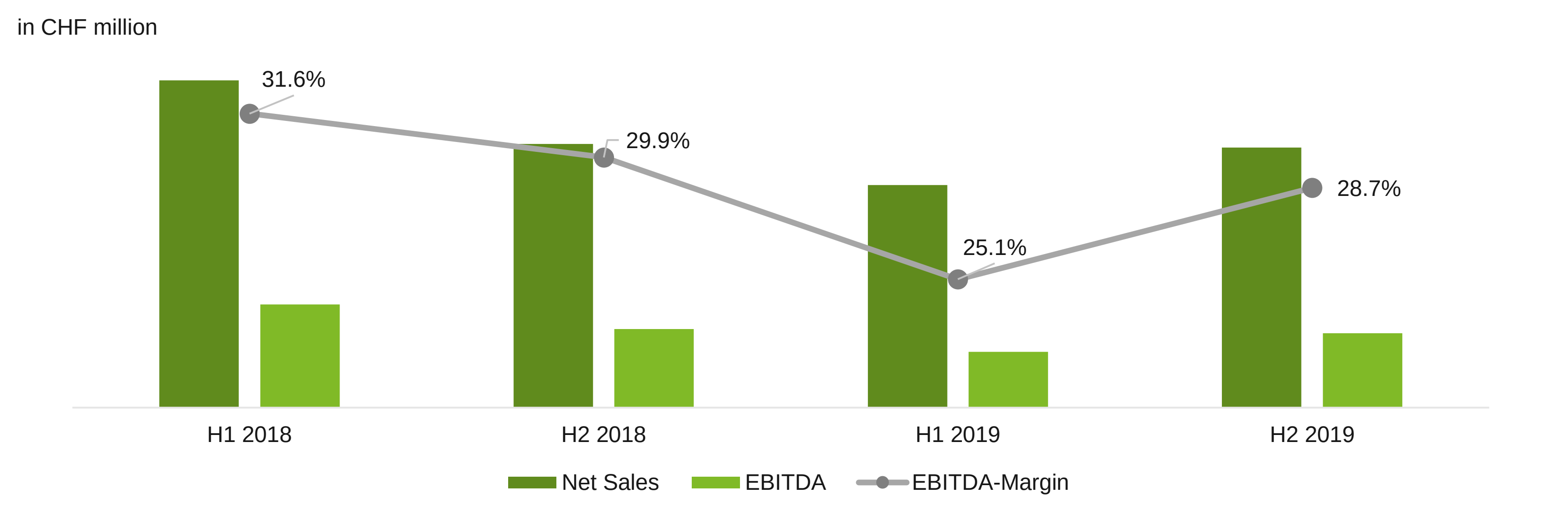
- ROIC calculated as NOPAT over invested capital
- CROIC calculated as Free cash flow over invested capital
- Net operating profit less adjusted taxes (NOPAT) is calculated as EBITDA minus depreciation and amortization (excluding amortization of acquired technology and customer relationships) plus finance income (including net foreign exchange gains/losses from financing activity and excluding other finance income) less taxes at the average Group rate of 15.8% (previous year 17.6%).

EBITDA margin above previous trough; demonstrates VAT's flexible operating structure and strong cost management



- Lower topline results reflected in lower-full year EBITDA and EBITDA margin
- EBITDA margin stays well above previous trough levels, due to VAT's flexible operating structure and strong cost management

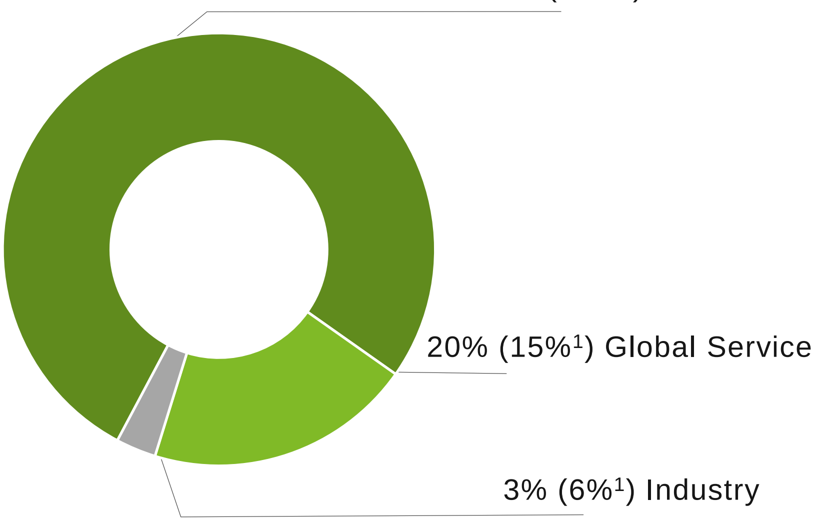
Cyclical business decline turned corner in H2 2019, EBITDA margin well above previous trough levels



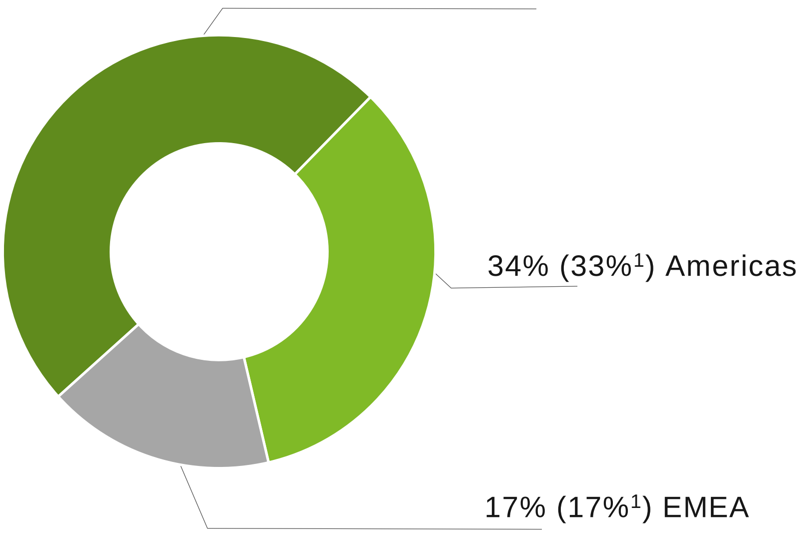
- Down-cycle in Semi and Display that started in the second half of 2018 bottomed out in the first half of 2019 and started to recover in the second half
- The EBITDA margin improved significantly during the second half of 2019

Full-year 2019 net sales CHF 570 million

Net sales by segment



Net sales by region



[1] 2018

Valves: 77% of net sales

in CHF million	Q4 2019	Q4 2018 adjusted	Change
Order intake	146.6	99.8	46.9%
Net Sales	139.9	116.2	20.4%

in CHF million	2019	2018 adjusted	Change
Order intake	463.0	510.8	-9.3%
Net sales	440.9	569.3	-22.6%
Segment EBITDA	136.3	195.5	-30.3%
EBITDA margin	27.7%	31.9%	

Semiconductors & Modules
- Sales reduction bottomed out in H1 2019, recovery began in H2
- Record number of specification wins

Display & Solar
- Softer performance after record results in previous year
- First new applications entering market (foldable phones, premium OLED TVs)
- Full-year book-to-bill remains above 1 times

General Vacuum
- Variety of industrial markets showed challenging conditions but started to recover towards the end of 2019

Starting January 1, 2019, VAT moved its third-party bellows business from the Industry segment into the Valves segment. The move reflects VAT's ambition to drive growth in the bellows business by better aligning it with its primary markets and the needs of customers in the semiconductor and general vacuum sectors. The prior-period figures have been adjusted accordingly, which includes the following realignments from the segment Industry to the segment Valves: Net sales CHF 18.2 million, segment net assets CHF 46.0 million of which net trade working capital CHF 9.3 million. In addition, the Inter-segment sales of the segment Industry were reduced by CHF 14.1 million. In the year 2019, the segment Valves achieved net sales of CHF 15.7 million with the bellows business.

Global Service: 20% of net sales

in CHF million	Q4 2019	Q4 2018	Change
Order intake	25.3	28.7	-11.9%
Net Sales	26.9	27.6	-2.4%

in CHF million	2019	2018	Change
Order intake	106.4	108.4	-1.8%
Net sales	111.8	105.8	5.7%
Segment EBITDA	46.3	49.6	-6.7%
EBITDA margin	41.5%	46.9%	

Successful portfolio expansion

- Record year for Global Service segment, sales growth driven by retrofits and spare parts
- Portfolio expansion and upgrade of retrofit portfolio allow customers to improve performance of existing tools
- New targeted service packages for specialized applications designed to provide safer and cleaner management of subfab systems resulting in less maintenance for the end users

Industry: 3% of net sales

in CHF million	Q4 2019	Q4 2018 adjusted	Change
Order intake	4.2	6.0	-30.0%
Net Sales	3.6	5.0	-28.0%

in CHF million	2019	2018 adjusted	Change
Order intake	15.5	28.9	-46.2%
Net sales	17.8	23.1	-23.1%
Segment EBITDA	2.8	4.3	-34.4%
EBITDA margin	10.6%	14.0%	

Business model adjustments continue

- New scope of Industry segment since January 1, 2019
- Bellows business moved to Valves segment
- Damper for high-efficiency automotive fuel injection systems are by far the largest part of the segment
- Weak performance mainly due to the temporary reduction in demand for these dampers, reflecting the introduction of new emission regulations in several markets

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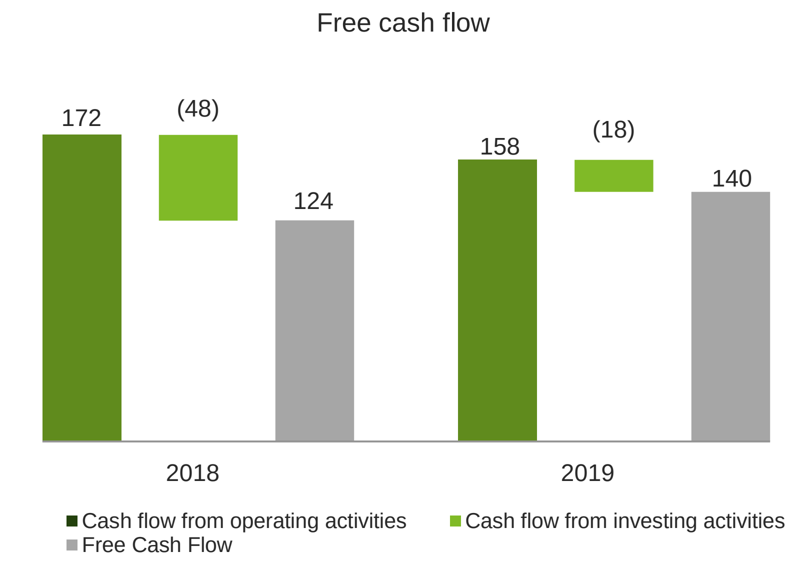
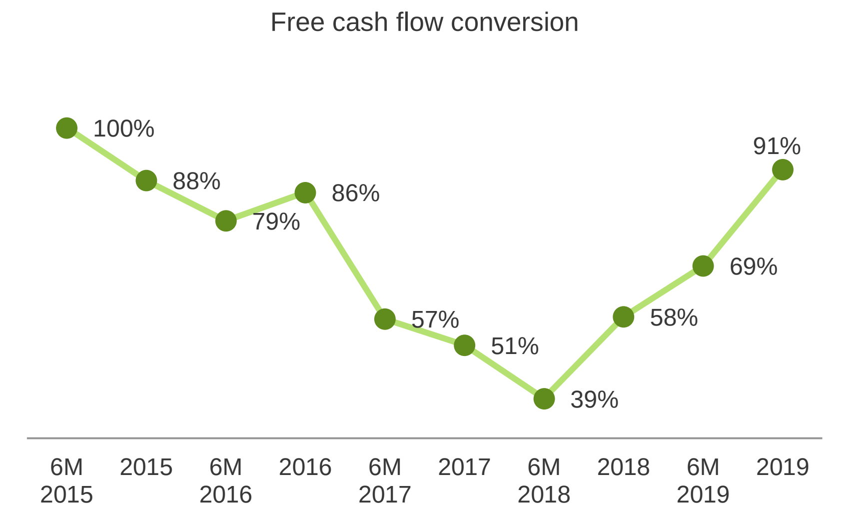
Lower EBITDA, higher depreciation and timing of tax recognition feed through to net income

in CHF million	2019	2018	Change
EBIT	107.7	179.7	-40.0%
Finance net	-8.7	-13.2	-33.8%
EBT	99.0	166.5	-40.5%
Income tax expenses	-24.2	-30.8	
Effective Tax Rate	-24.4%	-18.5%	
Net income	74.8	135.7	-44.9%

- Lower EBITDA and higher depreciation levels (+35%) negatively affect EBIT
- New Swiss tax regulation led to timing difference between tax recognition and tax credits; expected normalization during second half of 2019 only materialized partially but expected to continue in 2020 towards normalized 18 – 20%

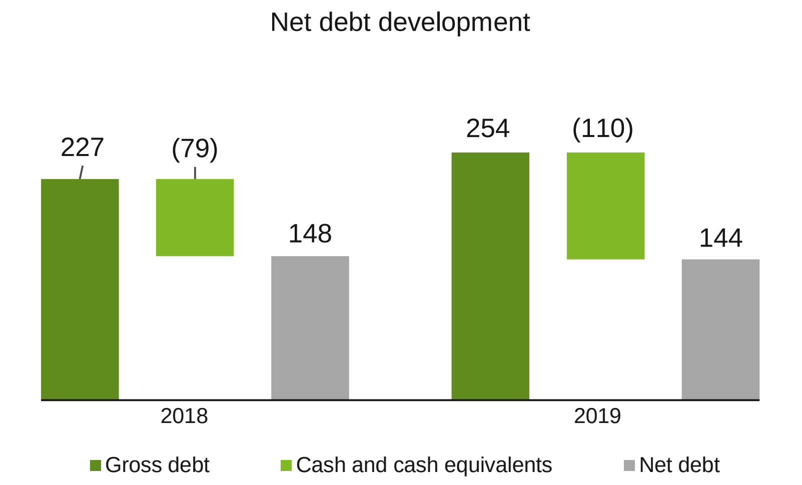
Record free cash flow and strong cash conversion

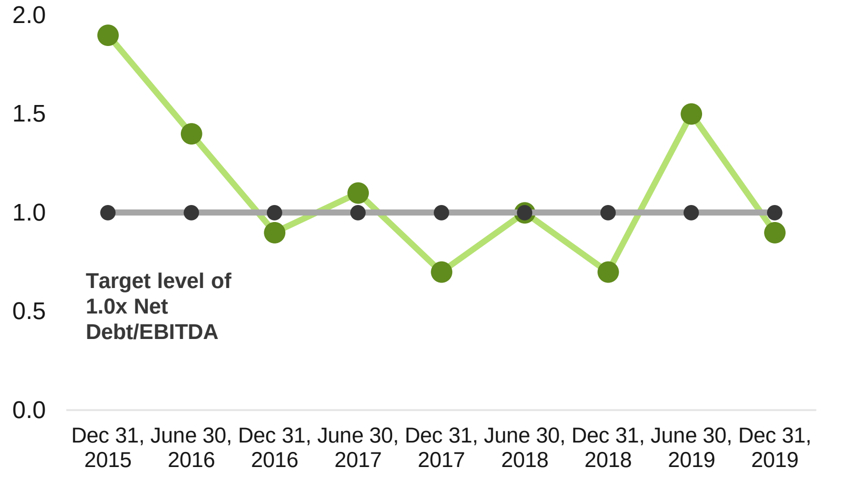




- Record free cash flow driven by trade working capital reduction by CHF 23 million to 21% of net sales (medium-term target of 20%)
- Very low capex level after finalization of factory expansion in Malaysia in 2018

Slightly reduced year-end net debt; leverage in line with target





- Higher year-end gross debt compensated by higher cash balance
- Gross debt 2019 comprises CHF 200 million bond and partial use of CHF 300 million RCF

- Year-end leverage below 1x as expected but slightly above 2018
- Leverage impacted by lower EBITDA, offsetting the lower net debt

Summary of financial results 2019 and priorities for 2020

Achievements 2019

- Overall lower results compared to 2018, market recovery began in H2 as expected
- Full-year EBITDA margin of 27% substantially above previous down-cycle levels shows success of cost focus and operational improvement measures
- Strong free cash flow generation resulting from lower capex and reduction of trade working capital closer to target level of 20% of sales
- Negative impact of Swiss tax reform expected to be temporary, mid term tax rate guidance of 18 – 20% still valid

Finance priorities for 2020

- Continued focus on cost and productivity improvements; keep trade working capital in line with expected ramp in production (medium-term target of 20% of net sales remains in place)
- Disciplined approach to capex, expected around CHF 30 million

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Our three medium-term growth dimensions remain in place

1st dimension: End market growth

- Medium-term digitalization growth trends such as IoT, AI, AR, etc. remain in place
- Hyperscale applications, cloud storage driving memory recovery in 2020
- 5G build-up gaining steam, paving the way for new applications

2nd dimension: Equipment growth

- Equipment investments expected to resume as memory supply and demand balance stabilizes during 2020
- Technology advances now progressing in all segments (> 100 level NAND, 5nm logic)

3rd dimension: Vacuum valve and vacuum component growth

- Record number of new platforms and applications being developed
- EUV lithography firmly established in small nodes, ecosystem requires more vacuum
- “Zero” particle environments drive opportunities for VAT motion components and modules

External market factors remain uncertain, bottom of semiconductor down-cycle reached with single-digit growth expected in 2020

Market	2019	2020
Semiconductor IC[1]	-13%	+9%
Semiconductor Capex[1]	-3%	+1%
Semiconductor WFE[1]	-9%	+5%
Semiconductor Vacuum WFE[1]	-12%	+4%
Display Equipment[2]	-27%	+8%
Solar Cells Capex[3]	+1%	+1%
Solar Fabrication Equipment[1]	-37%	+2%

Semiconductor

- Equipment order visibility improving but uncertainty regarding coronavirus impact
- Recovery in 1H20 driven by Advanced Logic/Foundry with a broad Memory pickup expected in 2H20
- 2020 forecasts range from 5% to 10%

Display

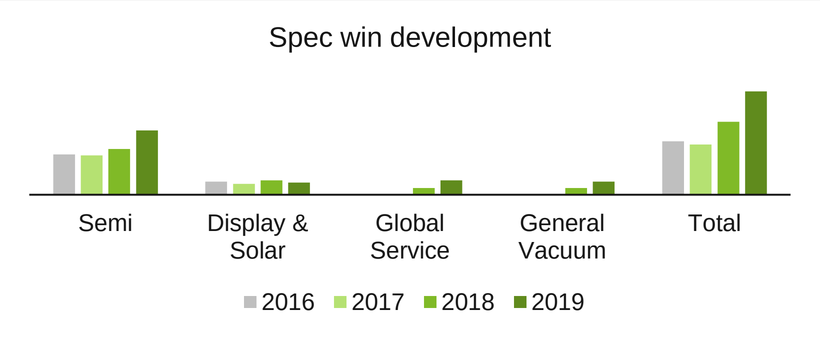
- Equipment market showing growth versus 2019
- Mobile and Flexible driving investments

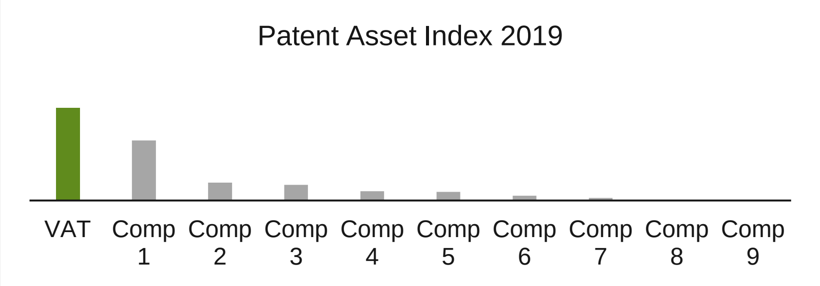
Solar

- Crystalline Silicon still >80% of Capex

[1] VLSI research February 2020; [2] DSCC February 2020; [3] PV-Tech Solar Media February 2020

Investments in innovation is key to future growth and market share gains – the spec win cycle





Source: EconSight, analysis based on 350 patent families active on January 23, 2020

- VAT's strong investment in R&D during the down cycle (6% sales in R&D) continues to translate into specification wins and market share gains
- Added 4% headcount in R&D, focus on new product adjacencies such as modules, motion components and new SMART components
- IP protection key to securing our competitive advantage

Conclusion

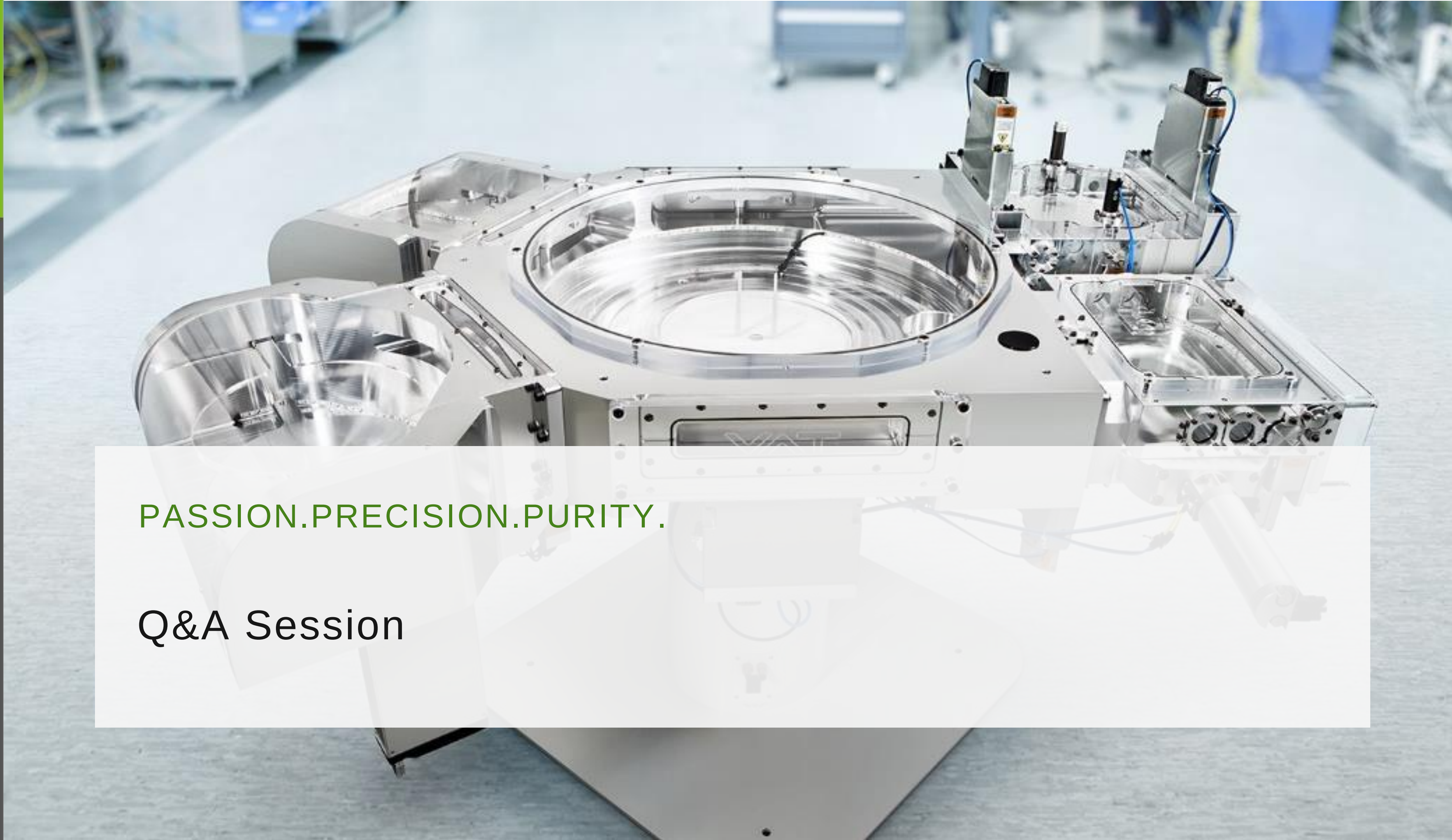
Market trends and VAT focus

- Improving market conditions seen in H2 of 2019 are expected to continue in 2020
- Strong restocking of inventories at our customers in Q4 will result in lower sales in Q1 2020 but we should see positive momentum into future quarters
- VAT's medium-term growth drivers such as the Internet of Things, cloud computing and storage, artificial intelligence and many other global digitalization trends are expected to fuel further demand for semiconductors and advanced displays and remain firmly in place
- Coronavirus adds some short-term uncertainty, but we do not expect a significant impact on 2020 full-year developments
- VAT continues to focus on innovation and internal efficiency improvements

Qualitative outlook for full-year 2020; top line guidance for Q1 2020

Full-year 2020	▪ Return to growth driven mainly by semiconductor-related activities; impact of coronavirus remains unclear ▪ Group net sales[1], EBITDA, EBITDA margin and net income expected to grow vs 2019 ▪ Mid-term EBITDA margin target of 33% confirmed and now expected to be reached at lower sales levels than originally anticipated ▪ Capex around to CHF 30 million; free cash flow depends on working capital needed for growth
Q1 2020 guidance	▪ VAT expects net sales of CHF 140-150 million, depending in part on the impact of the coronavirus outbreak

[1] at constant foreign exchange rates



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Q&A Session

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Information

Investor information

Listing:	SIX Swiss Exchange
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ISIN :	CH 031 186490 1

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Financial calendar

Thursday, April 16, 2020	Q1 2020 trading update
Tuesday, April 28, 2020	VAT Capital Markets Day
Thursday, May 14, 2020	Annual General Meeting 2020
Thursday, August 6, 2020	Half-year results 2020
Friday, October 16, 2020	Q3 2020 trading update

Forward looking statements

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.

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