VAT achieves record EBITDA, EBITDA margin and free cash flow while further expanding its leading market position

VAT Group reported substantially higher net sales, profitability and cash flow in 2020 and further expanded its leading market share despite the global COVID-19 pandemic. The recovery in the semiconductor industry – VAT's largest end market – continued during the year, buoyed by its designation as system-relevant during the pandemic. The shift to home office and the sharp increase in online commerce that resulted from pandemic-related lockdown restrictions accelerated some of the longer-term megatrends that drive this business, such as the Internet of Things, cloud computing and artificial intelligence. Demand was further supported by technology advances in logic and memory chips that require new production platforms: as node sizes shrink and chip architectures change, the need for purer vacuums and the number of process steps under vacuum also increase. As the leading supplier to the original equipment manufacturers (OEMs), VAT achieved a record number of specification wins on these new platforms, forming a basis for future revenue growth. In 2020, R&D investments amounted to CHF 41 million, or 6% of net sales. At the same time, VAT continued its focus on internal measures by improving operational efficiency and reducing costs, resulting in a record EBITDA margin of 31.4%.

Recovery in semiconductors continued in 2020

Semiconductor manufacturers continued to develop technologically more advanced chips to meet the demands of digitalization in 2020. In addition, greater volumes of semiconductors are being built into a growing number of products. As a result, demand for the high-vacuum equipment needed to manufacture semiconductors also grew strongly. Overall, global wafer fab equipment (WFE) spending in 2020 reached a record level of close to USD 63 billion, some 18% more than in 2019.

VAT tapped these growth opportunities to increase its valve market share across all industries from 49% in 2019 to about 55% in 2020, more than 10 times the size of its nearest competitor. In the more technologically demanding semiconductor segment, VAT's market share grew even higher, reaching 70% in 2020.

Business conditions in the displays segment remained challenging, mainly reflecting the pace of transition from liquid crystal display (LCD) to organic light-emitting diode (OLED) technology in large screen applications. Demand was also softer in the general vacuum and industry markets as the result of the economic impacts from the COVID-19 pandemic. The service business benefitted from its heavy exposure to the semiconductor market and continued to launch new service products for VAT's large installed base of valves.

Strong revenue growth despite foreign exchange headwinds

Total order intake in 2020 amounted to CHF 725 million, up 24% from the previous year. The order backlog at year-end stood at CHF 145 million or 27% higher than at the end of 2019. Net sales in 2020 rose to CHF 692 million, an increase of 21% despite a negative foreign exchange impact of approximately 5 percentage points resulting mainly from the weakness during 2020 of the US dollar, in which VAT reports a significant share of sales, versus the Swiss franc, the currency of a large portion of VAT's costs.

Net sales grew 25% in the Valves segment to CHF 550 million. Global Service sales rose 14% to CHF 127 million, while sales declined 17% in the Industry segment to CHF 15 million, mainly the result of discontinuing some activities in the company's Romania factory that were not related to VAT's core valves business.

Higher sales and operational improvements more than offset forex impact on EBITDA

Gross profit* increased 25% compared with 2019 to CHF 430 million. The gross profit margin improved slightly to 62% compared with 61% a year earlier.

Higher personnel costs in absolute terms reflect an increase in the number of employees (measured as full-time equivalents, FTEs) required to support volume growth in 2020. Personnel costs as a percentage of sales also increased versus 2019, as VAT continued to add technical expertise in R&D, product management and sales to support future growth. At the end of 2020, VAT employed 2,041 employees worldwide, an increase of 231, or 13%, compared with the end of 2019.

EBITDA for the year increased by 41% to CHF 217 million, reflecting both sales growth and operational improvements. As a result, the full-year EBITDA margin improved from 27% in 2019 to a record 31.4%, despite a negative effect of about 1.1 percentage points due to the foreign exchange headwind caused by the weak US dollar against the Swiss franc.

VAT's EBIT amounted to CHF 176 million, an increase of CHF 69 million, or 64%, compared with the year before. This included the positive impact of lower depreciation charges. Compared with 2019, the EBIT margin increased by almost 7 percentage points to 26%.

Below the EBIT line, VAT incurred substantially higher financing costs of CHF 16 million, up nearly 80% compared to CHF 9 million a year earlier. This is mainly the consequence of higher non-realized net foreign exchange losses on financing activities.

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

Net sales
in CHF million

692.4

2019 **570.4**

Earnings before taxes (EBT) increased to CHF 161 million from CHF 99 million. The effective tax rate for 2020 was 17%, down from the 24% recorded in 2019 when the timing of new tax regulations in Switzerland temporarily distorted the tax charge. VAT expects the effective tax rate to remain in the 18–20% range going forward.

As a result of these factors, and as indicated by company management during the year, realized net income attributable to shareholders increased in 2020, amounting to CHF 133 million, an improvement of 78% compared with 2019.

On December 31, 2020, VAT's net debt amounted to CHF 128 million, representing a leverage ratio expressed as net debt to EBITDA of 0.6 times. The average leverage over the course of 2020 was around 1.0 times net debt to EBITDA. The equity ratio at year-end amounted to 55%.

Record free cash flow and positive outlook support increased dividend proposal

One of VAT's key performance indicators and the basis for any dividend consideration is free cash flow, which in 2020 again increased compared with the previous year to a record CHF 147 million from CHF 140 million. This was achieved despite higher inventory levels and capital expenditures (capex) compared with a year earlier. Capex in 2020 amounted to CHF 26 million, up 44% over 2019, equivalent to 4% of net sales and in line with the company's guidance of 4–5% of sales over the cycle.

At year-end 2020, net trade working capital was approximately 34% higher than the same time in 2019, representing approximately 24% of net sales. While this was above VAT's long-term target of 20%, it reflects the company's growth expectations for 2021.

As a result, free cash flow as a percentage of net sales was 21% and the free cash flow conversion rate was 68% of EBITDA.

At its Annual General Meeting on May 18, 2021, VAT's Board of Directors will propose a dividend for the fiscal year ending December 31, 2020, of CHF 4.50 per share, an increase of CHF 0.50 or 12.5%. Half of this amount will be paid out of the reserves from capital contributions and the other 50% from accumulated gains. The proposal amounts to a total dividend amount of CHF 135 million, or 94% of VAT's free cash flow to equity.

Record number of spec wins

>100

2019 **>90**