“Ad hoc announcement pursuant to Art. 53 LR”

# Media Release

Haag, Switzerland, July 27, 2023

- **Slowdown in semiconductor spending shows expected impact on Q2 and H1 orders, sales and profitability**
- **VAT believes market might have bottomed, demand expected to improve sequentially over remainder of 2023**
- **Preparations on track for return to growth in 2024**

**Q2 2023 results**

- Orders down 56%, sales 23% lower vs. Q2 2022, reflecting lower investment activities mainly in the semiconductor sector
- Orders 14% higher vs. Q1 2023, indicating bottom of market might have been reached
- Book-to-bill ratio of 0.7; order backlog at CHF 340 million

**Half-year 2023 results**

- Orders down 55% year-on-year, sales decreased by 17%
- EBITDA margin at 29.2% on lower volumes and currency headwinds
- Operating cost adjustments ongoing while company maintains readiness for expected market recovery
- R&D spend and investment in additional production capacity on track

**Outlook for 2023**

- Investment conditions for VAT’s Valves segment are expected to remain mixed in 2023, with demand in the Semiconductor business unit remaining below 2022 levels but gradually improving over the rest of the year. Further growth is forecast in Advanced Industrials markets. The Global Service segment sees weaker market conditions due to lower demand in its semiconductor business, offsetting the benefits from the larger installed base.
- VAT expects lower sales, EBITDA, net income, and free cash flow vs. 2022
- The company now expects its EBITDA margin to be slightly below the 32-37% target band

**Guidance for Q3 2023**

- VAT expects sales of CHF 190-220 million, reflecting the current Swiss franc strength against other currencies

**Q2 2023**

| in CHF million | Q2 2023 | Q1 2023 | Change[1] | Q2 2022 | Change[2] |
|---|---|---|---|---|---|
| Order intake | **155.2** | **136.4** | +13.8% | 354.3 | -56.2% |
| Net sales | **221.0** | **232.7** | -5.0% | 285.9 | -22.7% |
| Order backlog | **339.7** | **416.4** | -18.4% | 559.4 | -39.3% |

**Half-year 2023**

| in CHF million | 6M 2023 | 6M 2022 | Change |
|---|---|---|---|
| Order intake | 291.7 | 648.5 | -55.0% |
| Net sales | 453.8 | 549.0 | -17.3% |
| EBITDA | 132.4 | 192.1 | -31.1% |
| EBITDA margin | 29.2% | 35.0% | -5.8ppt |
| Net income | 84.2 | 147.6 | -42.9% |
| Earnings per share (EPS, in CHF) | 2.81 | 4.92 | -42.9% |
| Capex | 31.3 | 16.1 | +94.5% |
| Free cash flow[3] | 36.9 | 78.6 | -53.0% |
| Number of employees[4] | 2,706 | 2,897 | -6.6% |

[1] Quarter-on-quarter
[2] Year-on-year
[3] Free cash flow is calculated as cash flow from operating activities minus cash flow from investing activities
[4] Number of employees expressed as full-time equivalents (FTE) at the end of the period

# Slowdown in semiconductor equipment spending shows expected impact on orders, sales, and profitability

**Q2 2023 summary**

The slowdown in spending on capital equipment in the semiconductor industry – VAT's largest end market – continued in the second quarter of 2023, with demand and customer inventory levels substantially below the record levels in the same period a year earlier. This resulted in lower second quarter orders and sales in both the Valves and Global Service segments compared with the same quarter in 2022. However, total orders improved sequentially compared to the first quarter of the year, and the company believes the bottom of the market might have been reached, with a gradual increase in orders expected over the second half of 2023.

In VAT's Semiconductor business unit, weaker market demand in the second quarter continued to be driven by reduced spending in consumer-related areas, such as memory chips used in smartphones, tablets, and PCs, reflecting macroeconomic uncertainties related to interest rates, inflation, and GDP growth. Trade restrictions by the US and other countries on exports to China of integrated circuits and related manufacturing equipment continued to negatively impact high end-domestic investments and also non-domestic fab investments have slowed. This could not be offset by higher lagging-edge investments in China. Investments in leading-edge logic chips used for data processing, however, remained at a healthy level.

In the Advanced Industrials business unit, growing demand for scientific instruments and research, solar photovoltaic projects, and industrial coatings more than offset the slowdown in consumer-related sectors. VAT was able to take advantage of this positive environment thanks to targeted growth initiatives that have been implemented in this business in recent quarters.

The Global Service segment also felt the impact of the semiconductor market slowdown, albeit to a lesser extent than in the Semiconductor business unit. New orders decreased in the second quarter as original equipment manufacturers (OEMs), foundries, and integrated device manufacturers (IDMs) reduced inventories of spare parts in light of lower capacity utilization. This was partly offset by the stronger demand for repair services, upgrades, and retrofits.

As a result, and as preannounced on July 13, second quarter orders amounted to CHF 155 million, down 56% year-on-year but approximately 14% higher than in the first quarter of 2023. Net sales were CHF 221 million, a 23% decrease compared with the same quarter in 2022, and in the upper half of the guidance of CHF 200-230 million communicated in mid-April. Foreign exchange movements, especially the US dollar against the Swiss franc, had a negative impact of about 8% on the change in reported Q2 sales. The second quarter book-to-bill ratio was 0.7, and the order backlog on June 30 amounted to CHF 340 million, 39% lower than at the end of the same period in 2022.

The Valves segment reported net sales of CHF 176 million in the second quarter, a 25% decrease compared with the same period a year earlier. Net sales in Global Service were down 12% at CHF 45 million.

**Six-month 2023 summary**

During the first six months of 2023, VAT's total order intake amounted to CHF 292 million, a decrease of 55% compared with the record levels seen in the previous year. Net sales declined 17% to CHF 454 million, with execution of the order book partially mitigating lower new orders. Foreign exchange movements, especially the US dollar against the Swiss franc, negatively impacted H1 sales by about 5%.

Orders in the Valves segment decreased by 58% during the first half of 2023 and amounted to CHF 223 million. Net sales were 20% lower at CHF 359 million. The Semiconductor business unit saw the strongest decline in both orders and sales as growth in leading-edge applications, such as lithography and atomic layer deposition, could not offset the ongoing slowdown in wafer fabrication equipment spending, especially in memory chip production. The business unit continues to focus on capturing new opportunities in leading-edge vacuum valve technologies, such as surface finishing, temperature management, and pressure curve control in advanced modules, while accelerating the development of additional adjacent products. The Advanced Industrials business unit continued to grow sales in a variety of key markets, with sales initiatives aimed at solar, scientific instruments, research applications, and precision coatings.

The Global Service segment reported 41% lower orders year-on-year while sales decreased by 6% to CHF 95 million. Growth in repair services, upgrades and retrofit areas could not offset lower sales of spare parts and consumables as customers reduced inventories on the back of lower fab capacity utilization.

**Lower top line impacts EBITDA**

Gross profit[1] for the first six months of 2023 amounted to CHF 282 million, a decrease of 20%. As a consequence, the first-half gross profit margin[2] decreased to 62% in 2023 from 65% in the same period in 2022.

EBITDA for the first half of the year decreased 31% to CHF 132 million while the EBITDA margin dropped to 29.2% versus 35.0% a year earlier. This decrease reflects the negative volume impact that could not be offset by operational measures focused on productivity and cost improvements. In addition, VAT continued to experience cost inflation in a variety of areas, including labor and logistics compared with 2022. EBIT for the first six months of 2023 decreased 35% to CHF 112 million, leading to an EBIT margin of 24.6% compared with 31.3% in the first half of 2022.

Below the EBIT line, net financial costs of CHF 11 million where significantly higher than a year ago as foreign exchange movements had negative impacts on loans and bank balances. The effective tax rate for the first six months of 2023 was 16% compared with 14% a year earlier.

Lower sales and EBITDA combined with the higher finance and tax charge led to a first-half 2023 net income of CHF 84 million, 43% lower than in the first six months of 2022.

On June 30, 2023, net debt amounted to CHF 198 million compared with CHF 178 million a year ago. The leverage ratio on a last-twelve-month (LTM) basis and measured as net debt to LTM EBITDA was 0.6 times, slightly up from 0.5 times a year earlier and from the 0.1 times level at the end of 2022. This is in line with the normal seasonal pattern that includes the dividend payment in May of each year. The equity ratio on June 30, 2023, was 56% compared with 53% on June 30, 2022.

**Continued focus on technology and footprint strengths**

Despite the market slowdown, VAT continued to invest in technology innovation and operational improvements in the first half of 2023. One measure of successful innovation is the number of specification wins, which are new products developed in close collaboration with customers for future vacuum equipment platforms and thus form a foundation for future sales growth and market share gains. Despite the lower investment activity in the semiconductor industry, specification wins, especially in high-end vacuum valves needed for the next generation of advanced semiconductors, remained on a high level. VAT recorded 41 wins during the first six months of 2023.

Operationally, total factory output at the company's production sites in Switzerland and Malaysia decreased in line with the lower sales volume compared with the first half of 2022. However, VAT is monitoring the market situation very closely, together with its customers, to ensure there is sufficient capacity available once the expected market recovery takes hold in early 2024. This includes construction of the second production site in Malaysia, which is on schedule to start production in the first half of 2024, including strategic partnerships with key suppliers. In addition, VAT started a short-time work program in June, initially for three months, that allows the company to retain its highly trained workforce through the downturn so that capacity can keep pace with the market rebound.

**Free cash flow reflects market slowdown and continued capacity expansion**

Free cash flow in the first six months of 2023 amounted to CHF 37 million, 53% lower than the year before. This is the result of lower EBITDA and operational cash flow coupled with higher capital expenditures (capex). Capex amounted to CHF 31 million in the first six months of 2023, up 95% compared with CHF 16 million in the first half of 2022, reflecting higher investments in capacity expansions in Malaysia and Switzerland which will be needed to meet higher demand expected in 2024 and beyond. Trade working capital amounted to CHF 310 million. As a percentage of last twelve month's net sales, net working capital increased slightly to approximately 30% from 29% a year earlier.

At the end of June 2023, VAT had 2,706 employees worldwide (measured as full-time equivalents, FTEs), a decrease of 191 FTEs, or 7%, versus the end of June 2022.

[1] Gross profit is calculated as net sales minus costs of raw materials and consumables used plus/minus changes in inventory of finished goods and work in progress.
[2] Gross profit margin: gross profit as a percentage of net sales

**Second Sustainability Report published with new mid-term ESG targets**

VAT published its second annual Sustainability Report at the beginning of July, providing stakeholders with a broader and more robust range of environment, social and governance (ESG) metrics, as well as the company's initial ESG targets.

The new disclosures are based on improved data collection in areas such as greenhouse gas (GHG) emissions, energy consumption, and waste generation. Reporting on occupational health and safety performance was expanded, along with hiring and employee turnover metrics.

VAT also carried out its first materiality assessment in 2022 to determine the effects of its activities, and those of its value chain on the environment and society, as well as the risks and opportunities that ESG issues pose for the company. Based on this assessment, VAT targeted a 50% Scope 1 and Scope 2 reduction in GHG emissions by 2025 compared with 2022 levels. The company also aims to increase the proportion of women among new hires to 23% by 2027 and to 25% by 2030, as well as to increase the share of women in leadership positions to 25% by 2027.

**Outlook 2023 – Lower demand expected before return to growth in 2024**

VAT continues to expect investments in semiconductor manufacturing equipment to remain at relatively low levels over the rest of 2023 compared with the record levels seen in 2022. This mainly reflects short-term market factors such as persistent inflation, weak economic growth in several key markets and ongoing geopolitical tensions, and related macroeconomic risks.

However, the sequential growth in orders in the second quarter of 2023 compared to the first quarter of the year indicates that the bottom of the market might have been reached. VAT expects this sequential demand improvement to continue in the remaining two quarters of the year and that the market will return to year-over-year growth starting in early 2024.

Based on these factors, VAT expects full-year sales and EBITDA in 2023 to be below the records set in 2022. The company now expects its full-year 2023 EBITDA-margin to be slightly below the 32-37% target band, set at the 2022 Capital Markets Day and based on a USD/CHF rate of 0.95. VAT will continue to invest in both innovation and capacity expansion, increasing its readiness to take advantage from the expected new technology buildouts in 2024 and beyond. Net income is also expected to be lower than in 2022.

VAT intends to continue ramping up production and engineering services at its facility in Malaysia, increasing its natural FX hedge by sourcing from best-cost countries, and gaining greater economies of scale in global supply chains. Significant investments in R&D will also continue, including its new Innovation Center in Switzerland. Overall, 2023 capex is forecast at CHF 80-85 million. Therefore, free cash flow is also expected to be below the 2022 record, but still at a high level.

**Guidance for Q3 2023**

VAT expects sales of CHF 190-220 million, reflecting the current Swiss franc strength against other currencies.

## Segment results Q2 and half-year 2023

### Valves

| in CHF million | Q2 2023 | Q1 2023 | Chg.[1] | Q2 2022 | Chg.[2] | 6M 2023 | 6M 2022 | Chg.[2] |
|---|---|---|---|---|---|---|---|---|
| **Order intake** | **120.3** | 102.4 | +17.5% | 291.0 | -58.7% | **222.8** | 532.0 | -58.1% |
| *Semiconductors* | *79.1* | *58.8* | *+34.5%* | *239.4* | *-67.0%* | *137.9* | *431.4* | *-68.0%* |
| *Advanced Industrials* | *41.2* | *43.6* | *-5.5%* | *51.6* | *-20.2%* | *84.9* | *100.6* | *-15.6%* |
| **Order Backlog** | **299.0** | **363.4** | **-17.7%** | **498.3** | **-40.0%** | **299.0** | **498.3** | **-40.0%** |
| **Net sales** | **175.7** | 182.9 | -3.9% | 234.2 | -25.0% | **358.6** | 448.2 | -20.0% |
| *Semiconductors* | *126.8* | *139.3* | *-9.9%* | *194.2* | *-34.7%* | *266.1* | *373.9* | *-28.8%* |
| *Advanced Industrials* | *48.9* | *43.6* | *+12.2%* | *40.1* | *+21.7%* | *92.5* | *74.3* | *+24.5%* |
| **Inter segment sales** | **17.9** | 21.4 | -16.4% | 21.9 | -18.3% | **39.3** | 42.7 | -8.0% |
| **Segment net sales** | **193.6** | 204.3 | -5.2% | 256.2 | -24.4% | **397.9** | 490.9 | -18.9% |
| Segment EBITDA | | | | | | **115.3** | 169.6 | -32.0% |
| Segment EBITDA margin[3] | | | | | | **29.0%** | 34.6% | |

[1] Quarter-on-Quarter [2] Year-on-Year, [3] Segment EBITDA margin as a percentage of Segment net sales

### Global Service

| in CHF million | Q2 2023 | Q1 2023 | Chg.[1] | Q2 2022 | Chg.[2] | 6M 2023 | 6M 2022 | Chg.[2] |
|---|---|---|---|---|---|---|---|---|
| **Order intake** | **34.9** | 34.0 | +2.6% | 63.3 | -44.9% | **68.9** | 116.5 | -40.8% |
| **Order Backlog** | **40.8** | **53.0** | **-23.0%** | **61.1** | **-33.2%** | **40.8** | **61.1** | **-33.2%** |
| **Net sales** | **45.3** | 49.8 | -9.0% | 51.7 | -12.4% | **95.2** | 100.8 | -5.5% |
| Inter segment sales | - | - | - | - | - | - | - | - |
| **Segment net sales** | **45.3** | 49.8 | -9.0% | 51.7 | -12.4% | **95.2** | 100.8 | -5.5% |
| Segment EBITDA | | | | | | **37.9** | 45.7 | -17.0% |
| Segment EBITDA margin[3] | | | | | | **39.8%** | 45.4% | |

[1] Quarter-on-Quarter [2] Year-on-Year, [3] Segment EBITDA margin as a percentage of Segment net sales

**Additional information**

The analyst presentation of the half-year results 2023 and the half-year report are available on VAT's website at www.vatvalve.com.

VAT will host a remote media and investor event today at **11:00 a.m. CEST** via webcast and conference call.

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**

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|---|---|
| **2023** | |
| Thursday, October 12, 2023 | Q3 2023 trading update |
| **2024** | |
| Tuesday, March 5, 2024 | Q4 and Full-Year 2023 results |

ABOUT VAT

We change the world with vacuum solutions – that is our purpose as the world's leading supplier of high-end vacuum valves. The Group reports in two segments: Valves and Global Service. The Valves segment is a global developer, manufacturer and supplier of vacuum valves for the semiconductor, displays, photovoltaics and vacuum coating industries as well as for the industrial and research sector. Global Service provides local expert support to customers and offers genuine spare parts, repairs and upgrades. VAT reported net sales of CHF 1,145 million in 2022 and employs some 3,000 people worldwide, with representatives in 29 countries and manufacturing sites in Switzerland, Malaysia, and Romania.