Media Release

Haag, Switzerland, August 8, 2019

Sequential growth Q2 vs Q1 indicates bottom of current market cycle has been reached, first-half sales and EBITDA below strong 2018 as expected

Q2 2019 highlights

- Net sales sequentially steady or up in all business units
- Focus on technology and innovation
- Market share gains continued, helped by spec-wins

Half-year 2019 highlights

- Low-cycle results in line with expectations vs strong first half of 2018
- Order intake 31% lower; net sales down 32%
- Global Service sales up 11% on product innovations
- EBITDA margin of 25.1% well above previous trough levels

Outlook 2019

- Softer market expected to reduce sales[1], EBITDA, EBITDA margin and net income vs 2018
- Mid-term EBITDA margin target confirmed at 33%, achievement by improvements of VAT's overall cost structure
- Capex of CHF 28 - 32 million; free cash flow expected to be above 2018 level

Guidance for Q3 2019

- VAT expects net sales[1] of CHF 130 - 140 million

[1] at constant foreign exchange rates

Q2 2019

In CHF million	2019	2018	Change
Order intake	**133.7**	165.6	-19.3%
Net sales	**135.3**	188.8	-28.3%

Half-year 2019

In CHF million	2019	2018	Change
Order intake	**261.6**	380.9	-31.3%
Net sales	**263.0**	386.6	-32.0%
EBITDA	**65.9**	122.1	-46.0%
EBITDA margin	**25.1%**	31.6%	-
Net income	**24.9**	83.6	-70.2%
Earnings per share (EPS, in CHF)	**0.83**	2.79	-70.2%
Capex[1]	**6.7**	33.7	-80.1%
Free cash flow[2]	**45.2**	47.3	-4.4%
Number of employees[3]	**1,714**	1,927	-213

[1] Capex contain purchases of property, plant equipment and intangible assets and proceeds from sale of property, plant and equipment
[2] Free cash flow is calculated as cash flow from operating activities minus cash flow from investing activities
[3] Full time equivalents (FTE)

Second-Quarter Summary

Sequential growth Q2 vs Q1 indicates bottom of current market cycle has been reached

The cyclical market downturn showed the first signs of easing in the second quarter as VAT's Q2 order intake and net sales improved on a sequential basis compared with the first quarter of the year. Order intake in the second quarter grew 5% versus the first quarter to CHF 134 million. Q2 net sales were 6% higher than the first quarter at CHF 135 million, at the top end of the company's Q2 guidance.

Compared with the same period in 2018, the order intake decreased 19%. Net sales were 28% lower compared to the near-record level in the second quarter 2018. The declines reflect the sharp cyclical market downturn that began in the middle of 2018.

Overall, semiconductor and display manufacturers remain cautious in their capital investments. However, the original equipment manufacturers (OEMs) are developing a record number of new production platforms in anticipation of further technology advances and the expected medium-term recovery in equipment spending. This includes new process technologies, such as atomic layer deposition (ALD), which is key to the latest generation of thin-film applications.

The sequential improvement in volumes from the first quarter to the second quarter of 2019 allowed VAT, as of July 1, to end the short-time work scheme for about 400 production employees in Switzerland. The company had introduced the scheme in the third quarter of 2018 as a way to rapidly adjust its cost base in response to the market downturn while minimizing impacts on its highly-skilled workforce.

Segment Review

Compared to the strong results in the second quarter of 2018, the Valves segment - VAT's largest business - reported a year-over-year net sales decline in the second quarter of 36% to CHF 101 million. Net sales in Global Service were 23% higher at CHF 30 million. Net sales in the Industry segment were down 17% to CHF 4 million, mainly the result of moving the company's third-party bellows business from the Industry segment to the Valves segment, effective January 1, 2019. On a sequential basis, Q2 net sales were steady to higher in all business units compared with the first quarter of 2019.

Six-Month Summary

The overall first-half results reflect the comparison with a very strong first half of 2018, when sales reached near-record levels before declining sharply in the second half as the market cycle turned negative. The downturn resulted from lower capital investments by semiconductor manufacturers as they adjusted to temporary overcapacity. Demand in other key markets, such as digital displays, remained challenging, while solar and general industry showed slightly positive trends.

VAT's order intake in the first half of 2019 was CHF 262 million, a decrease of 31% compared with the previous year. The order backlog at the end of June was CHF 112 million, 2% lower than at the end of 2018.

Group net sales declined 32% to CHF 263 million in the first six months compared with the same period a year ago. Foreign exchange rate movements had a positive impact of around 1%. Nevertheless, based on preliminary market analysis from VLSI research, VAT continued to increase its leading market share across all industries from 49% to 50%.

Segment Review

In the Valves segment, sales declined 39% to CHF 198 million. Both the Semiconductor and Display & Solar business units reported significantly lower sales as the result of the cyclical decline in their respective markets that started in the second half of 2018. However, the book-to-bill ratio in the Display & Solar business reached 1.2x, an indicator of sequentially improving revenues in the quarters to come. The market for solar photovoltaic equipment remained steady as increasing energy efficiency levels continue to improve solar energy's competitiveness. First-half sales increased in the General Vacuum business unit, supported by technology innovations such as the first order for a vacuum furnace application in China used in the production of thin-film lithium-ion batteries. The order reflects the success of VAT's strategy to apply its proven technologies in semiconductors and displays to a broader range of industrial customers.

The Global Service segment reported 11% net sales growth in the first six months to CHF 56 million, led by its valve repair and spare parts activities. The segment also released new service products during the first half, including upgrades for a wide range of transfer, control and isolation valves, as well as for advanced subfab applications used to reduce maintenance costs while improving the safety and cleanliness of pumping and abatement systems.

In the Industry segment, first-half sales declined, mainly related to a temporary reduction in demand for dampers used in high-efficiency automotive fuel injection systems, reflecting the introduction of new emission regulations in several markets.

EBITDA reflects lower volumes, EBITDA margin stronger than in previous down cycles

Gross profit for the first six months of 2019 amounted to CHF 161 million, a decrease of 32%. The gross margin of 61% however, was slightly higher than last year's level. This is the result of operational and cost improvements, especially in procurement.

EBITDA for the first half of the year decreased 46% to CHF 66 million and the EBITDA margin was 25.1% versus 31.6% a year earlier, reflecting the under absorption of fixed costs, investments in operational improvements and a higher level of R&D. In addition, foreign exchange rate movements and the introduction of the accounting standard IFRS16 negatively affected the EBITDA-margin by about 1.3 percentage points net. However, continued operational improvements in areas such as global supply chain optimization and more flexible labor cost structures allowed VAT to keep an EBITDA margin about 200 basis points above levels achieved at the bottom of previous cyclical downturns.

VAT reported net finance costs of CHF 3 million for the first six months, approximately the same as the first half of 2018. The effective tax rate for the first six months of 2019 was 35%, a temporary result of the timing of new tax regulations in Switzerland that required the booking of some tax expense in the first half. For the full year, VAT continues to expect the tax rate to normalize towards a long-term level of 18-20%.

The combination of lower sales and EBITDA with a higher tax rate resulted in a 70% reduction in net income in the first half of 2019 to CHF 25 million.

On June 30, 2019, net debt amounted to CHF 237 million, representing a leverage ratio (net debt to EBITDA) of 1.5x on a last-twelve-month (LTM) basis. The equity ratio on June 30, 2018, was 48%.

Execution of internal improvement measures continues

VAT will continue to improve its operational efficiency and flexibility in order to quickly adjust to changing markets. This includes benefits from economies of scale in its increasingly global supply chains, and ongoing operational excellence measures in areas such as product value engineering, new product development and time-to-market, more efficient and sustainable packaging and measures to reduce trade working capital.

At the same time, VAT is committed to building its long-term innovation and market leadership, maintaining investments in new product development and productivity improvements in 2019. The company will also continue to ramp up production at its facility in Penang, Malaysia, to better serve the key Asia market and enable faster and more flexible capacity adjustments through the cycle.

Free cash flow generation on track

Free cash flow in the first six months of 2019 amounted to CHF 45 million, 4% below the same period the year before. Capital expenditures in the first half of the year were significantly lower, at CHF 7 million, following the successful completion of the facility expansion in Malaysia. The company reduced net trade working capital (NWC) by approximately CHF 8 million in absolute terms compared to the end of 2018. As a percentage of LTM net sales, NWC increased to around 26%. VAT expects this ratio to improve in the second half of the year and to make progress towards its mid-term NWC guidance of about 20% of sales.

The free cash flow margin for the first six months of the year was 17%, and the free cash flow conversion rate was 69% of EBITDA.

At the end of June 2019, VAT had 1,714 employees worldwide (measured as full time equivalents, FTEs), a decrease of 213 FTEs versus the end of June 2018 and stable compared with the end of 2018.

Outlook 2019

VAT's medium-term growth drivers remain firmly in place. 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. This, in turn, is forecast to drive demand for VAT's high-performance vacuum components and related services, which are mission-critical in the precision manufacture of these digital devices. In addition, VAT forecasts a further expansion of vacuum-based production processes in a variety of industries.

While VAT's second-quarter 2019 orders and sales indicate an end to the cyclical market downturn, visibility for the rest of 2019 remains limited. End customers in VAT's largest end markets, such as semiconductor and display manufacturers, continue to be cautious in their capital investments. VAT therefore expects net sales at constant foreign exchange rates in 2019 to be lower compared with 2018. The company also expects its full-year EBITDA margin to be lower in 2019 versus the year before. VAT maintains its mid-term EBITDA margin target of 33% by further improvements of VAT's overall cost structure.

As a consequence of the expected lower net sales and EBITDA margin levels, VAT expects net income to be below the level of 2018. Capital expenditures in 2019 are planned to be between CHF 28 and 32 million. Free cash flow in 2019 is expected to increase compared with the previous year, mainly as the result of improved net working capital management and lower capital expenditures.

Guidance for Q3 2019

VAT expects net sales of CHF 130 -140 million.

Segment results Q2 and six months 2019

VALVES

in CHF million	Q2 2019	Q2 2018 adjusted[1]	Change	6M 2019	6M 2018 adjusted1	Change
Order intake	**101.2**	136.2	-25.7%	**199.3**	311.4	-36.0%
Net sales	**101.4**	159.5	-36.4%	**197.7**	323.3	-38.8%
Inter-segment sales	**13.0**	9.8	+32.7%	**25.2**	21.1	+19.4%
Segment net sales	**114.4**	169.3	-32.4%	**222.9**	344.4	-35.3%
Segment EBITDA				**56.5**	118.9	-52.5%
Segment EBITDA margin[2]				**25.4%**	34.5%	

GLOBAL SERVICE

in CHF million	Q2 2019	Q2 2018 adjusted[1]	Change	6M 2019	6M 2018 adjusted[1]	Change
Order intake	**28.0**	25.8	+8.5%	**55.1**	53.6	+2.8%
Net sales	**29.5**	24.0	+22.9%	**56.4**	50.7	+11.2%
Inter-segment sales	**-**	-	-	**-**	-	-
Segment net sales	**29.5**	24.0	+22.9%	**56.4**	50.7	+11.2%
Segment EBITDA				**25.0**	24.3	+2.9%
Segment EBITDA margin[2]				**44.2%**	47.8%	

INDUSTRY

in CHF million	Q2 2019	Q2 2018 adjusted[1]	Change	6M 2019	6M 2018 adjusted[1]	Change
Order intake	**4.5**	3.6	+25.0%	**7.2**	16.0	-55.0%
Net sales	**4.4**	5.3	-17.0%	**8.9**	12.6	-29.4%
Inter-segment sales	**2.3**	2.1	+9.5%	**4.4**	5.0	-12.0%
Segment net sales	**6.8**	7.4	-8.1%	**13.4**	17.6	-24.0%
Segment EBITDA				**1.2**	2.7	-54.3%
Segment EBITDA margin[2]				**9.1%**	15.1%	

[1] 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 realignments of net sales of CHF 10.3 million from the segment Industry to the segment Valves. In addition, the Inter-segment sales of the segment Industry were reduced by CHF 8.1 million. In the first six months of the year 2019, the segment Valves achieved net sales of CHF 7.8 million with the bellows business.

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

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Additional information

The analyst presentation of the results and the 2019 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

Thursday, October 24, 2019	Q3 2019 trading update
Monday, November 11, 2019	VAT Capital Market Day
Thursday, March 5, 2020	Full-year 2019 results

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 1'700 employees and main manufacturing sites in Haag (Switzerland), Penang (Malaysia) and Arad (Romania). Net sales in the financial year 2018 amounted to CHF 698 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.