

Transparency and trust are crucial

Andreas Leutenegger, CFO of the global leader in vacuum valves VAT, talks about his role before and after the IPO in 2016 as well as the challenges and opportunities for the company. He also shares his views on excellent capital market communication, annual report ratings, trends in financial reporting and future developments he would like to see.

By Barbara Zäch



ANDREAS LEUTENEGGER

joined VAT Group as CFO in 2015. Mr. Leutenegger started his career in the audit department of KPMG in Zurich, Switzerland. He later served in corporate controlling and reporting at Holcim Group before becoming CFO at Siam City Cement Public Company Limited in Thailand. Prior to joining VAT Group, Mr. Leutenegger was Head of Group Controlling at Holcim Group. He holds an MBA from the University of St. Gallen, is a Swiss Certified Public Accountant and is a graduate of the Advanced Management Program at Harvard Business School in the US. Mr. Leutenegger has significant global experience in finance and treasury, controlling and accounting, capital investment, and strategy and business development. He has successfully led change management programs in an international environment with a focus on maximizing return on investment.

Since your IPO in 2016 you have reported excellent results. What were the challenges to position your company in the capital market?

We have indeed reported two years of continuous growth with a high profitability since the IPO and while the markets we serve have been very strong it has not only been an easy time. With net sales growth rates of 24% and 36%, respectively in 2016 and 2017, it has been crucial that the entire organization has been able to deliver the necessary volume with highest quality. In order to meet our customers' expectations we had to massively increase our production capacity. At the end of 2017 we had about 80% more capacity than at the beginning of the year. To manage such growth while keeping the EBITDA margin at the same level was a challenging task.

What are the challenges and opportunities as a global leader of high-end vacuum valves in the markets?

Our three major customers, the top tier OEMs in the equipment market for semiconductors, account for close to 50% of our net sales. These companies were also the ones that have been growing their own market share substantially in 2017. Since VAT is the key supplier of vacuum valves to these OEMs it was very important

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to demonstrate them that VAT is able to ramp its production capacity quickly so that the supply of these mission-critical products is guaranteed at all times. VAT has stood up to the challenge and today is in a stronger position than ever. Our overall market share in 2017 has increased by 4 percentage points to 45% in one year and we expect to make further gains in the future.

What would you say is crucial for excellent capital market communication?

The most important thing in communication, whether to the capital markets, to the media or internally, is to be open, transparent and a trusted partner. You have to always stick to the facts and present them in a plausible and easy-to-understand manner. Continuously report on the same KPIs even if they show a negative trend, and explain rather than finding excuses. Since the IPO our results have improved with every quarter we reported and the challenge has been to point out these positive developments while at the same time managing that expectations remain realistic. Sometimes managements, analysts, investors or journalists get carried away by a good or bad story. Making sure that all facts are properly explained and the expectations realistic is therefore key.

What are the current challenges you see in the capital market communication?

The capital markets have been getting used to a very positive stock market environment on the back of historically low interest rates and a positive global economic development that has now already lasted for several years. This has led to a situation, where the valuation of the stock market is at an unprecedented high level where the risk of a sharper correction can no longer be ruled out. Making sure, that the value of a company not only lies in the quarterly results but also in the way it deals with different situations and how timely and transparently it communicates these situations is key. Communicating good results is easy, being there and answering the more difficult questions in a more challenging situation is where companies gain the trust from the financial community, the journalists, its suppliers and all its employees.

What are the success factors for a CFO during and after an IPO?

For a CFO it is important to have a clear understanding what the company wants to achieve with an IPO. Why does the company want to go public, how it impacts all relevant stakeholders and what the consequences will be. For example it means that you have to follow regulatory guidelines that you did not have before, that you have to discuss important business matters on a regular basis in public and that the absolute results may no longer be the most important aspect of your communication but rather how these numbers stack up against the expectations the public shareholders have. Most important is to plan for "being public" already while "going public". Which means to make sustainable decisions and to lay the grounds for the life after and not for the sake of going public. It also includes to set expectations and the pricing right. Make sure the market understands your story and trusts management. Markets can certainly deal with bad news but they do not like surprises.

How do you see the role of a modern CFO?

The modern CFO is not only responsible for the financial accounts and the adherence to the accounting standards and good governance. He needs to be a strong business partner to all functions in a company, be it when investment decisions in production facilities are taken, in the discussion of general strategic matters, in questions around possible M&A activities, in business relationships with customers and suppliers or the way a company incentivizes its employees, etc. The modern CFO needs a clear and holistic view on all business-related matters along the value chain while at the same time being on top of all financial and governance matters. While he is an enabler for future growth and profitability, and finally free cash flow delivery, he is also a guardian of fairness, transparency, good governance, fair trade and building trust among all stakeholders.

Which trends do you see in financial reporting?

Over the last couple of years there has been a trend towards ever-increasing and more stringent reporting requirements. After several financial scandals and especially since the financial crisis of 2008 it is obvious that the level of financial disclosure requirements have increased significantly. Together with more comprehensive requirements on corporate governance or the compensation of top management we now see annual reports getting thicker. Financial institutes issue annual reports of 300 pages and more and even a relatively small company like VAT can hardly make it below 150 pages. Furthermore integrated reporting will add to the page count. Therefore companies should focus on a clear and concise language, where i.e. key messages, strategy, goals and financial performance are explained in an easy-to-understand language and where everything less important is omitted. I truly hope that we will again get to a situation where "less is more".

The next Geschäftsberichte-Symposium will discuss controversially the topic "Less is More?" What is your view here?

Like I said before, this is at the heart of our philosophy. The fact that an annual report has several hundred pages does not make it per se a better report. Often you get the impression the sheer volume of information is rather leading you away from the core information than making it clear to everyone. While I certainly do not suggest we publish annual reports that look like a 20-F or 10-K in the US, I recommend that everyone given the task to write an annual report studies the publication "A plain English Handbook – How to create clear SEC disclosure documents". The preface by Warren E. Buffet alone is worth the download and while the rest should not be read as the holy grail of corporate writing it nevertheless gives a good opportunity to check our own way of writing a document.

Which development would you like to see in future corporate reporting?

A kind of a minimalistic and standardized framework where value and financial reporting is with a clear focus on the essential and easily locatable for all readers. All more PR-related or nice-to-have information is voluntary and separated in a different chapter. All must-haves should not be more than 50 pages structured in a standardized manner.

How do you relax after busy closing periods?

After the full-year closing period is before the first-quarter closing, is before the half-year closing, is before the third-quarter closing and is before the next full-year closing period. Joke aside; it is important for everyone and not just the CFO to enjoy activities outside the day-to-day business. For me this is spending time with my family and practice outdoor activities like skiing, running or mountain biking. Living in the Rhine Valley offers a lot of opportunities right in front of the door.

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