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Transcript of
Materion Corp.
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Participants

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Presentation

Operator
Greetings. Welcome to the Materion year-end 2019 Earnings Conference Call. [Operator Instructions] I will now turn the conference over to Stephen Shamrock. Thank you. You may begin.

Stephen F. Shamrock - Vice President, Corporate Controller & Investor Relations
Good morning. This is Steve Shamrock, Vice President, Corporate Controller and Investor Relations. With me today is Jugal Vijayvargiya, President and Chief Executive Officer; and Joe Kelley, Vice President and Chief Financial Officer. Our format for today's conference call is as follows: Jugal Vijayvargiya will provide opening comments on the Company's 2019 performance and the outlook as we move forward into 2020. Following Jugal, Joe Kelley will review detailed financial results for the quarter and full-year highlights, and then we will open up the call for questions.

Before we begin, let me remind investors that any forward-looking statements made in this announcement, including those in the outlook section and during the question-and-answer portion, are based on current expectations. The Company's actual future performance may materially differ from that contemplated by the forward-looking statements as a result of a variety of factors. Those factors are listed in the earnings press release we issued this morning. Additionally, comments with regard to operating profit, net income and earnings per share reflect the adjusted GAAP numbers shown in attachment number five in this morning's press release. The adjustments are made in both the current year and prior-year periods for comparative purposes and remove special items, non-cash pension charges, and certain income tax adjustments.

And now I'll turn it over to Jugal for his comments.

Jugal K. Vijayvargiya - President & Chief Executive Officer
Thanks, Steve, and welcome everyone. I'm pleased to report another year of record financial results. We delivered earnings of $3.19 a share, that's a 34% year-over-year improvement and it's the third consecutive year of more than 30% earnings growth. Our PAC and PC businesses achieved record operating profit margins. All three of our businesses reported double-digit operating profit margins for the second year. I'm very proud of our

global team for quickly embracing the One Materion multi-pillar strategy to deliver transformational financial performance over the past three years.

We finished the year at 11% operating profit margin. That's a 540 basis point improvement over the last three years. ROIC came in at 15%, a 900 basis point improvement and in 2019, we generated approximately $100 million of operating cash flow. As you can see from these metrics, we have emerged as an advanced materials company. Our global team is fully engaged and remains enthusiastic to deliver long-term sustainable profitable growth leveraging our differentiated product portfolio and unique technical capabilities. Joe will cover additional financial details for the quarter and the full year.

Now I will provide an update on current business conditions. We had a very successful 2019 despite challenging market conditions, which intensified in the fourth quarter in several of the end markets. Trade and tariff situation with China continue to be a drag on sales, particularly in the telecom and data center end market. We continue to see the effects of inventory destocking and sluggish demand in several other end markets, including automotive, industrial and energy. These factors are continuing to impact order entry heading into the current year. The coronavirus outbreak is expected to further pressure near-term outlook. At this time, it's very difficult to quantify the impact due to the evolving nature of the situation. Most importantly, none of our global employees are infected with the virus and we're taking every measure to ensure that we protect the health and safety of our people.

Despite all these macro challenges, we are entering 2020 with momentum in our aerospace and defense and semiconductor end markets. Aerospace and defense should remain a strong performer in 2020 with application wins and strong end-market demand in defense, which is expected to offset softness in aerospace. In the semiconductor market, we believe that we are starting to see a market recovery after two years of market downturn. We're also introducing an exciting new product in this market, aluminum scandium targets, which are critical to 5G and MEMS devices. These products provide a competitive performance advantage for our customers. As I've noted before, it is our intent to increase funding for R&D to support long-term growth. In 2019, we increased R&D spending by 20%. In the last three years, we've increased R&D spending 43%. An important example of this is our engagement with Cosworth Engineering in Europe to build an internal combustion engine using Materion components and perform testing to generate application data, which demonstrates the superior performance of our materials. In addition, we have expanded relationships with universities and think tanks specializing in material science to explore additional opportunities. We will continue to increase investment in R&D to drive long-term organic growth, which is our top priority.

Lastly, I would like to thank our entire global team, who have diligently led the progress over the last three years. Their passion for solving customer problems and embracing our One Materion multi-pillar strategy is inspiring. I have never been more excited about the Company's long-term growth potential. I look forward to providing updates on our progress in future calls.

Now I will turn the call over to Joe to cover the financials.

Joseph P. Kelley - Vice President, Finance & Chief Financial Officer
Thank you, Jugal, and welcome to everyone joining us on the call today. During my comments, I will cover full-year and fourth quarter 2019 financial highlights, review profitability by segment, provide brief comments on the balance sheet, cash flow and modeling assumptions and finally cover the earnings outlook for 2020. Following my remarks, we will open the line for questions.

Let me first briefly comment on full-year 2019 consolidated financial performance. Full-year 2019 adjusted operating profit totaled $82.4 million, an all-time record and a 25% year-over-year increase, primarily due to performance improvements across the Company related to commercial execution on product sales mix and

improved manufacturing productivity and cost reductions. Expressed as a percentage of value-added sales, adjusted operating profit was a record 11%. Value-added sales, which excludes the impact of pass-through precious metal cost, totaled $733.7 million for the full-year of 2019, relatively flat compared to $739 million in 2018.

Full-year 2019 adjusted earnings totaled $3.19 per share, up 34% versus 2018 adjusted earnings of $2.38 per share.

Now moving to the fourth quarter. Given the macro environment, fourth quarter 2019 was challenging from a top-line perspective. Fourth quarter 2019 value-added sales were $162.5 million, down 12.5% compared to $185.8 million in the prior year fourth quarter. We had another excellent quarter in aerospace and defense, up 24% year-over-year driven by a combination of program wins, strong demand and the timing of a large defense order. The semiconductor end-market sales also increased approximately 7% versus the prior year, as we are cautiously optimistic this end market is starting to turn positive after two years of declines. These gains, however, were more than offset by significant weakness in a number of end markets, particularly automotive, industrial and telecom and data center. In addition, we did not record any hydroxide shipments in the fourth quarter of 2019 compared to approximately $10 million in the third quarter of 2019 and $5 million in the fourth quarter of 2018.

Gross profit was $55 million or 33.8% of value-added sales in the fourth quarter versus an adjusted gross margin of $64.2 million in the prior year. The drop in gross profit compared to the prior year is due primarily to lower sales volume, offset by improved sales mix. Selling, general and administrative expense totaled $31.4 million, down $6.3 million or 17% compared to the prior year fourth quarter, with reductions in variable expenses and aggressive cost management actions aligned with business volumes. As a percentage of value-added sales, SG&A was 19% in the current quarter compared to 20% in 2018.

R&D expense was $5.2 million, up over 50% compared to the prior year as we continue to make R&D investments as part of our One Materion strategy to drive long-term growth. Operating profit totaled $16.6 million in the fourth quarter of 2019. Excluding $500,000 of special items related to external M&A costs and the legacy environmental matter, adjusted operating profit was $17.1 million or 11% of value-added sales compared to adjusted operating profit of $18.1 million or 10% of value-added sales in the prior year. We have now delivered six consecutive quarters of double-digit operating profit margins. Despite the decrease in sales volume, operating profit margins expanded year-over-year as our profitable growth strategy and performance-based culture has driven improved product mix and aggressive operational cost and efficiency management.

Looking at income taxes, we recorded income tax expense of $1.7 million in the fourth quarter of 2019, resulting in an effective tax rate of 10%. Excluding special items related to equity compensation and a state tax law change, the effective tax rate for the quarter was 17%, bringing the full-year adjusted tax rate to 18.4%, in line with our previous guidance. Adjusted net income for the fourth quarter totaled $14.1 million or $0.68 per diluted share, up 5% from an adjusted $0.65 per share recorded in the fourth quarter of 2018. This is the 12th consecutive quarter of year-over-year adjusted EPS growth and validates the commercial and operational improvements we have been making as part of our One Materion multi-pillar strategy.

Now let me review 2019 fourth quarter performance by business segment. Starting first with Performance Alloys & Composites, value-added sales were $91.3 million compared to $110.1 million in the prior year. Aerospace and defense end market sales continued to remain strong for the reasons I mentioned earlier. However, this strength was more than offset by significant decreases in the telecom and data center, and automotive end markets. The telecom and data center markets continue to be impacted by the ongoing tariff and trade situation with China, while automotive connector demand remains soft in Europe and Asia. In addition, there were no beryllium hydroxide shipments in the quarter.

Operating profit in the fourth quarter of 2019 totaled $13.6 million compared to adjusted operating profit of $18 million in the prior year. The decrease in operating profit was driven by lower sales volume in the quarter, offset by meaningful commercial and operational performance improvements. As a percentage of value-added sales, fourth quarter operating profit was 15%, the sixth consecutive quarter of operating profit margins of 15% or greater. We remain optimistic about the long-term growth potential of this segment based on our highly differentiated product portfolio and the commercial and R&D investments we are making. We are targeting 15% or better full-year 2020 operating profit margins.

Looking at the Advanced Materials business segment. Value-added sales in the fourth quarter 2019 were $52.8 million, consistent with the prior year. We finally began to experience a year-over-year increase in the semiconductor end-market sales and are cautiously optimistic we have experienced the bottoming out of this market. These increases were offset by market weakness in industrials, as well as reduced sales in the medical end market. Operating profit totaled $5.3 million compared to adjusted operating profit of $4.9 million in the prior year. The 8% improvement in operating profit was led by cost reduction actions, partially offset by unfavorable product mix. As market conditions improve, we expect to make progress towards returning this business to historical operating profit margin levels.

Turning now to the Precision Coating segment. Fourth quarter value-added sales were $19.2 million compared to $24.2 million in the fourth quarter of 2018 due to lower sales of large area coatings products into the medical end-market, as previously communicated. Operating profit for the Precision Coating segment totaled $1.6 million in the fourth quarter of 2019 compared to $2.4 million in the fourth quarter of 2018. The year-over-year decrease in operating profit was due to lower medical sales volumes partially offset by cost savings generated from third quarter restructuring actions. If you recall, we mentioned on our third quarter conference call that medical sales volumes for this segment were forecasted to decline related to the sustained increased cost of palladium and lower medical reimbursement rates. In the third quarter, we recorded non-cash goodwill and asset impairment charges as well as a restructuring charge to right size the cost structure for the lower sales volume. Looking ahead, we expect continued growth in our optical filter product line of this segment, which will partially offset the expected year-over-year decline in blood glucose test strip sales. We are targeting double-digit profit margins for 2020 for this segment.

Moving now to the balance sheet and cash flow. We generated cash flows from operations of $99 million, an all-time record due to strong operating results and a significant reduction in inventory levels. As a result, we ended the year in a net cash position of $123 million and have significant available liquidity to support capital allocation priorities, including organic growth opportunities, inorganic growth opportunities and consistently return capital to shareholders. For financial modeling purposes in 2020, cash outflows for capital spending should run approximately $30 million; mine development investments should be approximately $10 million to $12 million; annual depreciation and amortization should run approximately $35 million; the effective tax rate should be 18% to 20%.

And finally now the earnings outlook for 2020. We had a very successful 2019, delivering record level profits, despite a significant slowdown in the fourth quarter due to macroeconomic headwinds impacting several key end markets, including automotive, telecom and data center and energy. These headwinds are expected to continue into the first quarter of 2020 along with the added uncertainty of the economic impact of the Coronavirus outbreak. At a more company-specific level, we remain focused on making commercial and operational investments to drive profitable long-term growth. Based on these factors, we are guiding full-year 2020 earnings to range from $3.15 to $3.30 per share. Using the midpoint of this range, it would represent the fourth consecutive year of earnings growth.

From a quarterly guidance perspective, the first quarter will be challenged by the low incoming order rate experienced in late 2019, the lower fourth quarter production volumes, which pressure manufacturing costs, and

the uncertainty related to the impact of the coronavirus on business levels. We expect the first quarter of 2020 earnings to be sequentially down approximately 10% to 15% versus the fourth quarter of 2019 adjusted earnings. Most, if not all, of these challenges in the first quarter we view as temporary in nature and the remaining quarters of 2020 are forecasted to rebound to profit levels more comparable to those experienced in the first three quarters of 2019.

This concludes our prepared remarks, we will now open the line for questions.

Operator
Thank you. [Operator Instructions] Our first question comes from Edward Marshall of Sidoti & Company.

Q: So wanted to speak on the beryllium and the no shipments in the quarter. I'm wondering if there was anything contractually structured in the contract that you signed a few years ago with the customer that may have caused that or whether it was timing or maybe just destocking in the market, if you could elaborate a little bit please?

Jugal K. Vijayvargiya - President & Chief Executive Officer
The contract that we signed with our customer is more on an annual basis in terms of what the sales would be on an annual basis, we typically model that it would go across the four quarters but there was no requirement quarter to quarter. So there is timing and it just depends on what the needs may be at their level and what our production rate can be and so the combination of the two is what we end up using to deliver. So there is no contractual issue there. There is no specific special issue, it's just a matter of how things worked out as we managed 2019.

Q: So they just took their minimums earlier in the year than they normally would?

Jugal K. Vijayvargiya - President & Chief Executive Officer
Yes, that's, in effect, what happened.

Q: Got it. When I look at the --

Jugal K. Vijayvargiya - President & Chief Executive Officer
As you know, the third quarter was very strong in that area.

Q: Of course, of course, in fact, the whole year has been pretty strong, it looked like they front-loaded into the first three quarters. When I look at AM, I can see the improvement on the revenue. I'm curious if you could kind of talk about the gross margin that continues to decline a little bit. I'm wondering if that is competitive forces, whether that's pricing, giving up on pricing, or just kind of operational issues as you kind of come off the lower base?

Jugal K. Vijayvargiya - President & Chief Executive Officer
So on AM, we've made significant progress, in fact, I would say on the operational front. As you know, we went through a cost reduction effort in our European facility. We made good progress on that and we got that in place. So the operational side, I think, continues to perform well. On the AM side, we continue to face though is a little bit of a mix issue with the semiconductor business, along with some of the other areas, our large area targets business, which is one of the components of that business actually had a very strong year. That business doesn't generate the same level of returns that maybe some of the other businesses in that segment do. And so I think the mix was a big contributing factor on the AM. But I would say on the operational front, I think they continue to improve and our expectation is that that business will get back to historical margins as the market recovery, particularly in semiconductor, continues to happen. We have a lot of ramp actually of some new products that we're in the process of doing. So some of those -- sometimes, as you know, during the ramp-up, there's some

ramp-up costs that happen. So aluminum scandium is one of the areas that we talked about, in fact, in the prepared remarks earlier as well. So I expect that business over time to get back to the historical margins.

Q: And just to be clear does the R&D run through the specific segment level or does it run through—and I know this wouldn't affect gross margin, but does it run through the segment level or does it run through the corporate level?

Jugal K. Vijayvargiya - President & Chief Executive Officer
It runs through each of the segment levels.

Q: And so if I step back for a second and talk about the gross margin in that business, are you alluding to the fact that most of the operational changes have already been in place, the heavy lifting has been done and as we see the mix shift back to semi, we should ultimately see the gross margin rebound and that brings you back to historic levels. Is that what I understood from your comments?

Jugal K. Vijayvargiya - President & Chief Executive Officer
As you know, semi had really a two-year significant downturn and we started to see just very, very small signs of pick up here in the fourth quarter. Our expectation is that maybe the pickup will now start to get a little bit bigger and bigger every quarter. But one of the things that, of course, everybody is facing right now is this whole coronavirus thing. So we'll have to see what—if there is this delay, okay, in the pickup that was starting to come through. The other thing that, I think, is an important factor for us is the new product introductions that are at a much better profitability levels than some of the outgoing products as well. So I think combination of the semiconductor pick up, the macro environment with the virus subsiding, and then the new product introductions launching, those are all contributing factors to improving the margins.

Q: Got it. As far as the health concerns are related, AM is your biggest exposure, I guess, to maybe even from a sourcing perspective and a shipment perspective? Is that accurate?

Jugal K. Vijayvargiya - President & Chief Executive Officer
Well, I mean, yes, from a direct China health perspective, we do have a manufacturing plant for the AM business, we actually have a manufacturing plant for our Precision Coatings business as well. We have been monitoring that almost daily from here. We've got few leaders in China and in Asia that are monitoring it and as of right now, we are—we can say that we are clean and we're doing everything we can to support our employee base there. In terms of the customer impact, as you know, more the business impact, supply chain impact, I think it actually goes across all three of our businesses because AM certainly from the electronics and the semiconductor side, but a lot of our PAC business, particularly strip products, they end up in the China market. And then we, of course, have a plan for our Precision Coatings business and our displays business, so actually all three of our businesses will have direct and indirect impact for the virus situation.

Q: Okay. Final one from me, the coating products for 5G that you mentioned, the new products, was that in-house developed under the traditional Materion or is that from the acquired Heraeus business?

Jugal K. Vijayvargiya - President & Chief Executive Officer
No, that is in-house from—that's primarily led by our Milwaukee business that—and produced in one of our facilities here in North America. And so it's part of the R&D effort that we really have to, to drive growth, organic growth, and so it is something that is the, let's call it, the legacy Materion business.

Q: Great. Thank you very much for all your time.

Jugal K. Vijayvargiya - President & Chief Executive Officer
Okay. Thanks Ed

Operator
Our next question comes from Martin Englert of Jefferies.

Q: So some of this you touched on in your prepared remarks, but I wanted to circle back on it. When thinking about your guidance, can you discuss some of the end markets here and maybe provide a little bit more granular detail on what end markets you expect to see growth year-on-year in 2020 in value-added sales? And conversely those that you have factored in kind of flat and/or negative trends?

Jugal K. Vijayvargiya - President & Chief Executive Officer
So from an end market perspective, as we ended the year and then also into the new year, we see, as I indicated, a little bit of a light at the end of the tunnel so to speak on semiconductor after two years of tough going there. So semiconductor is a market that we see, I think, on more of the positive side. I think defense is going to be a strong—continue to be a strong market for us. We may have some challenges in terms of year-over-year comps, because we had a very strong 2019, in particular, with a couple of very large orders toward the end of the year. So, year-over-year comps may be challenged. But in general, it will still be—we expect it to be a strong market.

But then the other markets, be it automotive, telecom, data center, energy, medical, you name it, I mean, I think those markets we would expect neutral to negative is what our expectation is for this year. We're just not seeing the uptick. If you take automotive, for example, report's out last night that China was down 18% in January, expectation from the European Auto Manufacturers Association that Europe may be down 2% this year, etc. So we're just not seeing the signs yet in some of these other areas. You know, oil and gas rig count continues to go down as of here just a few days ago. I think it was below 800, which is levels that have not been seen since three years ago, March of ' 17. So some of those markets, I think we would see as neutral to negative with semiconductor being on the, perhaps on the plus side and defense, I would say, being a little bit on the plus side as well. And then related to semiconductor is, of course, consumer electronics, which we would perhaps see as a small uptick as well.

Q: Okay. And kind of taking all those together, are you anticipating value-added sales will be down year-on-year as a result of some of these stagnant and more challenged end-markets when you kind of sum everything up?

Jugal K. Vijayvargiya - President & Chief Executive Officer
As you know, Martin, we don't comment on value-added sales and we provide guidance at the earnings level. But I think based on the earnings level that we have provided, the performance improvements that will continue to drive the—some of the market challenges that we just mentioned, the new product introductions that we have, I would expect us to be able to still deliver some level of modest growth. But it is going to be a very challenging year.

Q: Okay. Got it. Understood. And looking at value-added sales within aerospace and defense, can you provide a little bit more detail on what the mix is associated with commercial aero?

Jugal K. Vijayvargiya - President & Chief Executive Officer
As you know, commercial aero is something that has been a challenging market for us for '19. And we expect those challenges to continue because one of our largest customers is a large customer that's facing some difficulties right now, whereas the defense side is fairly robust. In terms of just the size of the defense versus the aerospace component, I mean, you could almost say almost kind of like a 2 to 1 ratio, maybe defense is more like a two-thirds and aerospace is about a third, I think, of the split. But we continue to see challenges on the

aerospace side and then as I said on defense, we expect to have some tough year-over-year comps, but still a good market.

Q: And if I could one last one here, and you touched on this before and noted that factoring in risk around the virus is pretty difficult to quantify, but is there some aspect of your quarter-on-quarter earnings or full year that you're baking in some type of earnings headwinds associated with the coronavirus?

Jugal K. Vijayvargiya - President & Chief Executive Officer
So I think on the first quarter with this 10% to 15% sequential guide down that we have indicated, we're factoring in some level of, I'll say, direct and indirect impact, but on a full-year basis, I mean, our expectation at this time is that the recovery will happen. And then this impact is just a short-term impact, recovery will happen and it will get recovered, whatever losses that the market would show us in the beginning of the year would get recovered. So, obviously, if those assumptions don't come true, then we'll have to relook at the guidance, but at this stage our expectation is, and with what we have communicated, is we are trying to factor in for Q1 but for the full-year, we were expecting full recovery.

Q: I appreciate all the detail and congratulations on another solid year of earnings growth.

Operator
Our next question comes from Marco Rodriguez of Stonegate Capital.

Q: Good morning guys. Thank you for taking my questions.

Jugal K. Vijayvargiya - President & Chief Executive Officer
Good Morning Marco.

Q: Wanted to follow-up again on the Advanced Materials section just the semiconductor area. Obviously, you've talked about the mix issues that have sort of impacted the margins and how your thought is that once that mix sort of switches, then it will be a lot easier for you guys to obtain that historical operating margin perspective. But wondering if maybe you can talk a little bit more about that mix aspect. Is this something that is controlled by you in terms of a sales initiative? Is it a particular product line that at the moment is depressed because of the lull that semiconductor market has had and expectation as that comes back or is it new product that's supposed to overtake the mix issue?

Jugal K. Vijayvargiya - President & Chief Executive Officer
So I think as we look at on a go-forward basis, I'd say it's a combination, right? One, we are doing a lot on new product introductions and pushing our sales force and our development teams to work with our customers and introduce new products and new technologies. I mentioned this aluminum scandium as an example of something that we are really pushing, going and knocking on doors and trying to make sure that we get a strong foothold as that technology takes off. So it definitely is, I think, things that we can do from that front and then the second part, of course, is just the market recovery. We need the market after two years of continued downturn to have a meaningful recovery. I mentioned that we're starting to see some signs of it but those signs were right toward the end of last year and I would say very, very small signs. And then now with this virus impact, as I said, there may be another gap and we'll have to wait and see. So I think it's a combination, where we can control with new product growth and new product introductions that we are doing and market recovery. But I would say a meaningful market recovery versus just the initial signs that we started to see.

Q: Understood. And is there an expectation in terms of your guidance at least for that segment, the Advanced Materials, that toward the tail-end of fiscal 2020 that you start to hit those mid-teen type operating margins or is that something that maybe is a 2021 event?

Jugal K. Vijayvargiya - President & Chief Executive Officer
I think clearly we have internal expectations, but I think just in terms of our general expectation for that business, our objective is to continue to make progress every quarter in that business and at some point, whether it's in '20 or perhaps in '21, be able to get to those historical margins. So we don't have a specific time line that we're ready to communicate at this stage, but we just want to make sure we can demonstrate progress every quarter.

Joseph P. Kelley - Vice President, Finance & Chief Financial Officer
I'll just add, if you look on a full-year basis, we did expand the operating profit margin of that segment '19 -- full year '19 over '18. So we are starting to make some progress.

Q: Then switching gears here on to the difficult aspect of looking at the coronavirus and its impact, you mentioned you have a couple of plants in China. Are they open? Are they running right now? Or are they still shut down?

Jugal K. Vijayvargiya - President & Chief Executive Officer

So we took an extra week where we had shut those plants down similar to many other facilities -- many other companies did. So we restarted on February 10. However, I will tell you that we do not have a full workforce at this stage, there is a number of people that we have made sure we are following through with some sort of home quarantine because we want to be extra cautious for them as well as their co-workers. So right now, we are open with those two plants on a limited basis and would expect that over the next couple of weeks, there would be back to full production. But it will also depend, of course, on orders and order entry that we get, but we will be prepared to do full production in a couple more weeks.

Q: And if maybe you could share if you've had any sort of conversations with end market customers, just any sort of sense in terms of what they are thinking about in terms of supply chain impact because, obviously, there is going to be some push-out, some people are starting to come back, some people aren't. I don't think it's necessarily you're going to lose orders but it's definitely pushing to the right.

Jugal K. Vijayvargiya - President & Chief Executive Officer
So right now, as you know, we are typically a Tier 2, Tier 3 in many cases. So we don't feel the impact right away, but we start to see some effects of it in terms of just like you said, general wording and some general commentary. So we are starting to hear from our customers that they're very concerned, of course. In terms of actual orders and orders declining, we have not received order declines, I would say, as of today, but our expectation is that I think we will see impact here in the very near future.

Q: And a last quick question, if I might. Expectations for the hydroxide shipments in fiscal '20, is It still a kind of flat line across all four quarters or any sort of indication from customers in terms of how they might order this year?

Jugal K. Vijayvargiya - President & Chief Executive Officer
It's, as you know, we expect that to be basically flat on a year-over-year basis. I mean, typical $15 million to $20 million that we estimate. For modeling purposes, we estimate that to be basically every quarter, all four quarters. However, we know that there could be some timing issues here and there based on what the customer decides to do, but at this stage we've modeled it for our purposes as if it's throughout the year.

Q: Thanks a lot guys. I appreciate your time.

Jugal K. Vijayvargiya - President & Chief Executive Officer
Thanks Marco.

Operator
Our next question comes from Michael Leshock of KeyBanc Capital Markets.

Q; Hey guys. Good morning

Jugal K. Vijayvargiya - President & Chief Executive Officer
Good morning Michael.

Q: So you talked a little bit about the new products ramping in 2020. Could you talk about how you see the cadence of these ramp ups throughout the year?

Jugal K. Vijayvargiya - President & Chief Executive Officer
So when we look at, for example, this aluminum scandium that I spoke about, that's something that we started to launch, I would say, toward the end of last year, but in a very low volume. We expect that to continue to ramp throughout the year, we think that that will continue to ramp this year as well as in the next year as well. So I think we see that, as I said, throughout the year. When we look at our engineered strip products, we have a project that we are working on with one of our customers and we would expect that project to launch in the second half of the year. So that will be a nice pickup for us in the second half of the year provided that we can make sure the customer and us, we continue with the timing. We have a number of other products that we're working on, but I would say they're kind of sprinkled during the year. So there's not a -- I'm not able to give you any specific uptick that would happen in one quarter versus another, a sharp uptick that would happen in one quarter versus another.

Q: And then on the 737 MAX, just what impact have you seen thus far? And is there anything you're able to do to kind of mitigate that impact going forward?

Jugal K. Vijayvargiya - President & Chief Executive Officer
So we have seen impact, I mean, we don't talk about specific customers or a specific product impact, but we definitely have seen an impact with that. But then in general with that customer, because it's not just at that particular plane the impact. I mean, if you look at aero business, it was down $4 million I think in the quarter. So, year-over-year down $4 million. Our defense business, on the other hand, was up. So what we're really doing is trying to manage that overall aerospace and defense as a market by pushing really on the defense side while there's this temporary setback on the aero side.

Q: And just wondering on your M&A strategy, could you talk a little bit about how you view the current environment? And is this a consideration in your guidance?

Jugal K. Vijayvargiya - President & Chief Executive Officer
I mean, we are absolutely focused on the M&A front, we made significant progress as you know on the organic side, driving performance improvements over the last three years and we're very, very focused on driving top-line growth on the organic side, making investments as we indicated on the R&D side, 43% increase over the last three years, 20% increase year-over-year last year. So we continue to push on the organic growth and our guidance and the numbers that we communicate to you are clearly based on more of an organic front. But we are very heavily focused on the M&A side and provided that we find the right opportunity, we'd make the necessary move this year.

Q: Then lastly for me, just a modeling question, how should I think about projected pension expense and contribution in 2020 versus 2019?

Joseph P. Kelley - Vice President, Finance & Chief Financial Officer
So as you recall, we did freeze our pension plan, our defined benefit pension plan, and switched all employees to one consistent defined contribution plan and so down in other net expense below OP, above EBIT, you should see about a $2 million to $3 million benefit. And cash contributions this year will be zero, whereas historically as you recall we've averaged around $15, $16 million.

Operator
Our next question is a follow-up from Edward Marshall of Sidoti & Company.

Q: The PAC delta on—I guess, sequentially looking at beryllium hydroxide, I just wanted to come back to that for a second, it looks like the delta there might be $10 million, maybe $11 million in revenue or value-added revenue.

Jugal K. Vijayvargiya - President & Chief Executive Officer
Yes. It's $10 million.

Q: About $10 million, OK. Is the delta on the EBIT line for that business all attributable to the beryllium hydroxide? Optically, it looks like it's pretty close.

Joseph P. Kelley - Vice President, Finance & Chief Financial Officer
We don't, obviously, disclose the profitability of individual product lines with individual customers. So we can't comment on that.

Jugal K. Vijayvargiya - President & Chief Executive Officer
I think there's a lot, as you know, there's a lot of pluses and minuses that happened in the business, right. I mean, clearly that customer volume down is one, but there is various performance changes, as we mentioned earlier, our defense business was up, our aero business was down and there's a lot of mix that happens. So if the number seems to you as if it's maybe in line with that type of a number, I think it's just a matter of coincidence because there is a lot of pluses and minuses that happen to get to the overall profit number.

Q: Right. I recall that energy is a pretty good mix item for you in that business as well.

Joseph P. Kelley - Vice President, Finance & Chief Financial Officer
You are correct.

Jugal K. Vijayvargiya - President & Chief Executive Officer
You are correct.

Q: Okay. Thanks very much.

Jugal K. Vijayvargiya - President & Chief Executive Officer
Thanks Ed.

Operator
This concludes the question-and-answer session. I will now turn the call over to Mr. Shamrock for closing remarks.

Stephen F. Shamrock - Vice President, Corporate Controller & Investor Relations
Thank you. This is Steve Shamrock, and this concludes our fourth quarter 2019 earnings call. A recorded playback of this call will be available on the Company's website, materion.com. We would like to thank all of you

for participating on the call this morning and your interest in Materion. I will be available to answer any follow-up questions. My direct number is 216-383-4010. Thank you very much.

Operator

This concludes today's conference call. You may disconnect your lines. Thank you for anticipating and have a pleasant day.