Transcript of
Materion Corporation
Third Quarter 2020 Earnings Conference Call
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Participants

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Jugal Vijayvargiya - President and Chief Executive Officer

Analysts

Marco Rodriguez - Stonegate Capital Markets
Philip Gibbs - KeyBanc Capital Markets
Christopher Hillary - Roubaix Capital LLC

Presentation

Operator
Greetings. Welcome to the Materion Third Quarter 2020 Earnings Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] Please note this conference is being recorded.

I will now turn the conference over to Steve Shamrock, Interim Chief Financial Officer. Thank you. You may begin.

Stephen Shamrock - Interim Chief Financial Officer
Good morning. This is Steve Shamrock, Interim Chief Financial Officer. With me today is Jugal Vijayvargiya, President and Chief Executive Officer. Our format for today's conference call is as follows.

Jugal Vijayvargiya will provide an update on COVID-19 and key strategic initiatives. Following Jugal, I will review detailed financial results for the quarter, 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 earnings before interest and taxes, net income and earnings per share reflect the adjusted GAAP numbers shown in Attachment #5 in this morning's press release. The adjustments are made in the prior year period for comparative purposes, and remove special items, non-cash charges, and certain income tax adjustments. And now, I'll turn it over to Jugal for his comments.

Jugal Vijayvargiya - President and Chief Executive Officer

Thanks, Steve, and welcome, everyone. I hope all of you and your loved ones continue to remain healthy and safe during these unprecedented times.

Today, I'll first review the impact of COVID-19. And follow that up with an update on our key strategic initiatives. Health and safety of our people continues to remain our overriding priority. We continue to take input from all available sources to ensure appropriate measures are taken to protect our people around the world.

A majority of our office employees are working from home and all of our factories are operating.

As you would expect, we continue to experience the impact of COVID-19 in a number of our key end-markets, particularly in aerospace, energy, and industrial.

Despite very challenging market conditions, we delivered sequential earnings growth for the second consecutive quarter. And all three of our businesses reported double-digit profit margins.

Semiconductor sales continued on a positive trajectory with sequential and year-over-year growth led by commercial performance initiatives related to new products and stronger demand. We have actively managed our costs in response to the downturn. Sequentially, earnings increased 12% with a sales increase of 4%.

I will now transition and review some of our key strategic initiatives.

I'm excited to report consolidated quarterly financial results, which include Optics Balzers for the first time. The combination with Optics Balzers creates the world's leading thin-film optical coatings provider with a highly complementary geographic, product, and end-market portfolio.

Our teams are fully engaged with integration activities, which are going very well and according to plan.

Our commercial teams are starting to work together on identifying synergistic customer opportunities in support of our overall growth objectives. Our engineered clad strip project, which I announced earlier this year, remains on schedule.

As a reminder, we entered into a business arrangement with a new customer to expand our manufacturing capacity for a highly engineered clad strip product, which will be used in a next-generation model of an existing product.

The total investment of the project is expected to be approximately $85.0 million, with the customer pre-funding approximately $70.0 million. In September, we received an additional $14.0 million from the customer for a total of $45.0 million since start of the project.

In support of this program, we are actively working to establish a new leading-edge manufacturing facility for future product supply. In addition, we're making good progress on negotiating a long-term supply agreement and expect to finalize in the fourth quarter.

We are also on track for shipping product in the fourth quarter from our existing facility.

Lastly, I will provide a quick update on the PAC facility consolidation project. This project remains on schedule to complete all activities by yearend.

We completed the closure of the Detroit, Michigan service center in the second quarter. In the third quarter, we shut down production at our Fremont, California location. We expect to complete relocation and installation activity in the fourth quarter.

In closing, I want to sincerely thank our global team who is persevering through this pandemic with a determination and focus to drive Materion forward on our transformation into an advanced materials business.

Now, I will turn the call over to Steve to cover the financials.

Stephen Shamrock - Interim Chief Financial Officer

Thank you, Jugal, and good morning to everyone joining us on the call today. During my comments, I will cover third quarter 2020 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 the fourth quarter of 2020. Following my remarks, we will open the line for questions.

Despite the ongoing COVID-19 pandemic, I am pleased to report third quarter results which exceeded the second quarter. Third quarter value-added sales, which exclude the impact of pass-through precious metal costs, were $167.5 million, up 4% compared to second quarter value-added sales of $161.6 million and down 11% versus the third quarter of 2019.

Compared to the second quarter, the incremental sales related to the Optics Balzers acquisition and growth in the semiconductor end-market. This was partially offset by softer demand in markets impacted by the COVID-19 pandemic, including aerospace and industrial. Telecom and data center end-market sales were also lower due to lower demand related to the continued impacts of tariffs and COVID-19.

Gross margin was $46.6 million in the third quarter, compared to $48.1 million in the second quarter. The third quarter gross margin included $7.3 million of mine development costs.

As you may recall, we have historically accounted for these investments as capital expenditures. However, in the third quarter, we returned to expand an existing pit in production for the first time, based on the cost to extract the ore and ore purity.

Despite the fact that these costs are of the exact nature and type as previous mine development activities, technical accounting rules require us to treat these costs as period costs. We incurred $7.3 million of expense in the third quarter and expect to incur an additional approximately $6.0 million in the fourth quarter. Once these mine development activities are completed, we expect to extract ore from this pit into 2023. We also do not expect to incur additional mine development costs until sometime later into 2022. Based on these factors and our historical treatment, we identified these costs as special.

Excluding mine development and other special items related to COVID-19 and the Optics Balzers acquisition, adjusted gross margin was $55.1 million or 33% of value-added sales, a

200 basis point improvement compared to the second quarter adjusted gross margin of 31%. Our manufacturing team has continued to drive significant operational improvements, despite lower sales.

Selling, general and administrative expense totaled $35.7 million, up versus the second quarter of $32.9 million. Excluding special items related to the acquisition and integration of Optics Balzers, COVID-19, and the forfeiture of non-cash stock-based compensation, adjusted SG&A expense totaled $32.2 million.

As a percentage of value-added sales, adjusted SG&A expense was 19% in the quarter, consistent with the second quarter. We continue to aggressively manage our SG&A expenses in response to current demand trends.

Research and development expense was approximately 3% of value-added sales in the third quarter, consistent with the second quarter, as we continue to make investments to drive long-term profitable growth through development of new products and applications.

In the third quarter, we recorded restructuring expense of $2.6 million related primarily to the previously announced closure of our Detroit and Fremont facilities for relocation costs and severance.

As you may recall, we recognized a $2.2 million unrealized foreign exchange gain in the second quarter related to the purchase of Optics Balzers, which was denominated in Swiss francs. We also reported an additional $1.1 million foreign exchange gain in the third quarter related to the same item, which we also classified as special.

We reported third quarter earnings before interest and taxes of $1.8 million. Excluding special items I mentioned previously, adjusted EBIT was $15.4 million or 9% of value-added sales.

Looking at income taxes, we recorded an income tax benefit of $6.0 million in the third quarter of 2020. Excluding the tax impact of special items and special tax expense items of $5.8 million. Our adjusted tax expense was $2.8 million, or an effective rate of 19.8%, in line with our previous guidance. The tax special items primarily related to the acquisition of Optics Balzers and federal tax law changes enacted in the quarter.

Finally, net income in the third quarter totaled $6.5 million. On an adjusted basis, we reported net income of $11.3 million or $0.55 per diluted share, compared to $0.49 per share in the second quarter. The increase compared to the second quarter was due primarily to manufacturing performance improvements, aggressive cost management, and the addition of Optics Balzers.

Now, let me review 2020 third quarter performance by business segment. Looking now at our Performance Alloys and Composites business, value-added sales were at $81.9 million, a decrease of $7.9 million compared to the second quarter. The sequential decrease is due to a continuation of soft demand in select end markets impacted by COVID-19, particularly aerospace and industrial. In addition, raw material hydroxide sales were down $3.0 million compared to the second quarter.

EBIT excluding special items was $10.4 million, or 13% of value-added sales, compared to $12.3 million, or 14% of value-added sales, in the second quarter. The sequential decrease in EBIT is due to lower sales volumes, partially offset by manufacturing performance improvements. This business has been impacted the most by the ongoing global pandemic given the exposure to the aerospace, energy, industrial, and automotive end markets. Although we are focused on making further improvements to EBIT margins, we have made tremendous progress in this business.

PAC reported double-digit EBIT margins for the 11th consecutive quarter. I also remind investors that at comparable sales levels in 2016, this business reported EBIT margins which averaged in the low-single-digits.

Moving to Advanced Materials. Value-added sales in the third quarter of 2020 were $57.6 million, up 5% versus the second quarter and 4% versus the prior year, driven by growth in the semiconductor end market, as commercial performance initiatives and increased end market demand drove the growth.

EBIT excluding special items was $6.0 million in the quarter, compared to $5 million in the second quarter. EBIT margins also improved sequentially from 9% in the second quarter to 10% in the third quarter. The improvement in EBIT margins was due to favorable sales mix and manufacturing performance improvements. And we remain focused on continuing to improve this metric going forward.

Turning finally now to the Precision Coatings segment. Third quarter value-added sales were $28.3 million, up 59% compared to the second quarter, due to the acquisition of Optics Balzers and strength in our legacy precision optics business, partially offset by lower sales of blood glucose test strip products in our large area coatings business and reduced demand for projection display products.

As you may recall, we announced our intention to sell our large area coatings business in the first quarter. After going through the sales process, we've made the determination to wind down the operations of the business and sell individual assets. We expect to substantially complete these actions by the end of the year.

EBIT excluding special items was $3.5 million or 12% of value-added sales compared to $2.4 million in the second quarter. The increase in EBIT was due primarily to higher optical filter product sales.

Moving now to the balance sheet and cash flow. The Company ended the third quarter of 2020 with a net debt position of only $10.9 million, and approximately $234.0 million available on the Company's credit facility. We continue to have more than adequate liquidity to manage in this challenging environment.

Our capital spending increased in the first nine months to $46.0 million. The increase versus the prior year is related to the customer funded engineered strip growth opportunity Jugal mentioned. For financial modeling purposes in 2020, capital spending should run approximately $25.0 million, net of customer prepayments related to the new engineered strip project. Annual depreciation and amortization should run approximately $42.0 million, and assume an 18% to 20% effective tax rate excluding special items.

And finally, now the earnings outlook for the fourth quarter. The impact of the COVID-19 pandemic continues to create heightened levels of uncertainty, making it very difficult to predict the extent to which our business, result of operations, financial condition, or cash flows will ultimately be impacted.

We will continue to aggressively manage our cost structure in the current environment. At this time, based on current order entry levels, we expect fourth quarter adjusted earnings to be slightly better than the third quarter.

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

Operator
Thank you. [Operator Instructions] Our first question is from Marco Rodriguez with Stonegate Capital Markets. Please proceed.

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

Jugal Vijayvargiya - President and Chief Executive Officer
Good morning.

Stephen Shamrock - Interim Chief Financial Officer
Good morning, Marco.

Q: I was wondering if maybe you could spend a little bit of time on Optics Balzers here. First and perhaps you can provide what sort of a revenue benefit it had in Q3? And then, from a bigger picture standpoint, just wondering if you can talk a little bit about the sales teams' efforts there, how that integration is going, what that structure is going to sort of look like to drive the top-line synergies you're looking for.

And then, if maybe you could touch on any sort of incentive structure that might be somewhat different to try and drive that line item there for the acquisition.

Jugal Vijayvargiya - President and Chief Executive Officer
Yeah, Marco, let me just first give a quick update on the integration activity itself. As you know, we've had our day one for this business, and then since then, we've really excited to have the integration, led by teams from both the Optics Balzers' side as well as the teams from the Materion side.

I can tell you the integration has gone extremely well. We have a couple of outside firms that have been working with us. We have a seasoned integration leader that we've put in place, who is helping lead this activity.

So I'm pleased to tell you and everybody else that all the things that we expected from this so far, and of course, it's early stage, but so far, everything is progressing per plan. With regard to the revenue for this business, I mean, keep in mind, we had about 10 weeks into the quarter, when we – or 10 weeks of the quarter, I should say, when we took over this business, so not a full quarter.

But we don't specifically call out what the revenue is. But I'm sure that if you look at some of the historical information that we've provided and try to look at it from that perspective,

you may be able to understand at a high level, keeping in mind that the historical information, of course, did not have COVID impact. So that would have to be factored in.

This business really gets integrated into our precision coatings business. It's roughly about half the size of the overall business of precision coatings. And so, we'll continue to manage this at a business unit level, with precision coatings in total and continue to report all the information at that level.

On the sales structure, I can tell you that that's a really exciting phase right now. We actually have a firm that, Optics Balzers, in fact, has worked with in the past to help drive some of the sales activities on their side. We've been employing that firm to work with us and integrate the two sales organizations. It's going very well.

Developing a global organization that can have global customer accounts, at the same time can provide the regional service that is needed. And that team is, I would say at a phase where the structure has been outlined. We're starting to put some names in place now with that structure, and we're starting to identify some initial projects that we can start to work on.

But as you can imagine, first and foremost, we have to make sure that we get the proper structure in place, the names in place, and then start driving the sales synergies, which we are so hungry for in this acquisition that we did.

Incentive structure, I mean, that clearly is going to be an important element of what we go forward, I mean, we have a very good disciplined incentive structure that I believe we've created for the Materion side in the last couple of years. And so, that's one of the things that our HR organization and our sales organization is looking at, is studying the incentive structure that Optics Balzers employees have and then what the Materion employees have had. And we will be looking at opportunities to merge those, if it makes sense to drive it.

But clearly, that will be an important part of helping drive our growth initiatives as we move forward. So in general, going well, quite excited about it, and look forward to reporting future – progress in future calls.

Q: Understood. And then, in terms of the merging of the sales teams with Materion and Optics Balzers in the PC segment, can you describe a little bit about the training efforts, the cross-training efforts? Is that something that's very difficult or is it something that's pretty easy when it comes to the cross-selling?

Jugal Vijayvargiya - President and Chief Executive Officer

Yeah, no, I think it's going to be a fairly easy task in terms of the cross-selling, because both of these organizations, these businesses are experts in optical filters and optical filter technology. A lot of the customers that we actually work with, are similar, are same customers. And I think the regions that we're working in, we're going to leverage the actual local expertise for the region.

So we don't have as much training, let's say, necessarily, that's needed from a regional perspective. So I think it's a good start with the team that we have, I don't expect it to be a lengthy process, I expect these people to be able to pick up the technologies from each other quite rapidly and move forward. And I think from a customer standpoint, I expect the teams to be able to operate fairly quickly.

Q: Got it. And then, Jugal, in your prepared remarks, I didn't quite catch all of it. But you had made a mention about one of the pillars of your strategy on commercial excellence and specifically brought out – some new products and some strong demand, I guess, kind of helping out the quarter. Can you maybe provide a little more color around that statement there?

Jugal Vijayvargiya - President and Chief Executive Officer
Yeah, I mean, when we look at the quarter, a couple of areas that I think we're good positive movements for us, one, including the semiconductor side continues to be a strong market in general, both from a general market pull standpoint, as well as products that we're introducing. So we've talked about aluminum scandium product a couple times actually on the calls, and we continue to be quite excited about that product. That's one that can be used for 5G and for other semiconductor applications. And so we continue to see robust demand on that. And that's, I think, helped in some of the – offsetting some of the downturn that we've had with the other markets.

We look at some of our pickup in the consumer application, consumer electronic side, some of the mobile handset devices and applications. So we have some pickups there with some of our new products. There's some softness, that's also happened in the consumer electronics side with some of our projection display business. So the net isn't necessarily as strong as the semiconductor side. But we have a segment of the consumer side that is doing well on a sequential basis.

Q: Understood. And then, in the past, you guys have talked about the R&D pipeline new products as far as a percentage of overall revenue, whether that's trailing three months or trailing three years. Do you have any other data in terms of that that kind of points to your movement there on the R&D side?

Jugal Vijayvargiya - President and Chief Executive Officer
Well, I think the main data point I would talk about is the actual R&D spending. One of the things that we really focused on in the last three quarters is to ensure that we do not sacrifice R&D spending in this very, very challenging time. So we have maintained, and in fact, even increased R&D spending where necessary, so that we can continue to fuel our development that's going on in the new product area.

We do and we have talked about that which is a new product sales sort of metric – that metric, I mean, for this year, I mean, one of our biggest areas for that was clearly ToughMet. And all the new product activities that we had on ToughMet, as you know, the ToughMet is a very, very high growth area for oil and gas, and for aerospace segments, both of which have been significantly hit this year.

And so that metric, unfortunately, of course, is lower compared to our prior years. But it's specifically driven by the market demand in oil and gas and aerospace, and not related to new products and new products introductions in general that we're making across the Company.

So we're continuing to fuel our new product pipeline, making sure that our R&D spending stays intact. And it's our intent to every dollar that we can find. We're going to continue to spend towards R&D.

Q: Got it. And just lastly, real quick, kind of a housekeeping item here. I believe, I caught up but I just wanted to confirm here the gross margin impact that you guys saw on the PAC side, at least on a reported basis. You had the mine development costs, which is a one-time item that was a particular impact that caused the decrease sequential in year-over-year on the gross margin side of the PAC. So I just kind of wanted to confirm that. And then also, if I heard correctly, that there's going to be another roughly $6.0 million same sort of impact in Q4?

Stephen Shamrock - Interim Chief Financial Officer
That's correct, Marco. You understand it correctly.

Q: Got it. Great. Thanks a lot, guys. I appreciate the time.

Jugal Vijayvargiya - President and Chief Executive Officer
Okay. Thanks, Marco.

Stephen Shamrock - Interim Chief Financial Officer
Thanks, Marco.

Operator
Our next question is from Phil Gibbs with KeyBanc Capital Markets. Please proceed.

Q: Hey, good morning.

Jugal Vijayvargiya - President and Chief Executive Officer
Good morning, Phil.

Stephen Shamrock - Interim Chief Financial Officer
Good morning, Phil.

Q: For Advanced Materials, it was good to see the margin progress that you're making intra-year. Is your goal, Jugal, to still try to get that business back to mid-teens operating profit and what do you think it's going to take to get there particularly given the fact that semi demand has been really strong?

Jugal Vijayvargiya - President and Chief Executive Officer
Yeah. Well, I think first of all, from a goal standpoint, absolutely. I mean, our objective, really at a company level. We've talked about it at the company level that we would like to continue our journey towards an advanced materials company, and we believe an advanced materials company is one that is more of a mid-teen type of a margin company, so all of our businesses have to deliver good strong margins for us to be able to then have mid-teens type of margins at the company level. So yeah, absolutely, our goal is to do that.

And, of course, as you know, we're on the road to progress, and then due to some of the challenges that we faced here recently, we had a setback, but we have continued to make progress just reported 10% double-digit margins, which was, I think, a great sort of milestone for this business, and we will continue to work that.

Where I see a couple of things happening, one, I think we got to continue to drive our manufacturing improvement, our yield improvements, our new product launch improvements. I mean, one of the reasons that we're seeing the demand that we're – or the

sales, I should say, that we're seeing in this business is because of the number of new products that the team has been working on, and launching those new products from aluminum scandium to ALD products, to products that go into the memory market.

So there's a number of new products and so as those continue to launch, and as we continue to ramp those products up, we expect better yields and, therefore, better performance. I think the other is, continue to make sure our portfolio is strong. So any area that we feel needs to be pruned, so it could be a customer, for example. It can be a specific product or something. I mean, if there's something that we have to make any adjustments on, we're going to continue to do that, so that we have the right type of mix and the portfolio, as we go forward.

And then we're paying a lot of attention to our customer portfolio as well, and ensuring that we have the right type of customers that we can work with, where we know that they value, the sort of the skills and capability that we bring to the table. So I think all those things will be important factors as we move forward in driving this business to the mid-teens margins.

Q: So in terms of a timeline, Jugal, when do you think that that you can start to see more, I guess, sustainable improvement, getting to 11, to 10, that sort of thing, just in terms of the timeline. So we don't get ahead of ourselves.

Jugal Vijayvargiya - President and Chief Executive Officer
Yeah. So if the pandemic wasn't here, I believe, I think I would tell you that I would be able to give maybe a more specific timeline, but the uncertainties around what's going to happen in Q4 and Q1. And is there a second wave or not. I mean, I think those kind of bring some uncertainties into the picture. But our goal is to continue to have good sequential improvement in this business.

And so into 2021, I mean, we want to continue to drive sequential improvement and get to those mid-teens margins. So I don't have a specific date with sort of day or quarter I can give you, Phil, that we're prepared to communicate at this time. But I can tell you, it is a very, very important part of our focus.

Q: It kind of a macro question, but on the side of foreign exchange, the dollar has been weak, the last several weeks. How do you – how does that impact you guys one way or the other?

Stephen Shamrock - Interim Chief Financial Officer
Phil, from that perspective, I would tell you that really is, we've managed that exposure quite well. I mean, if you look, even at our year-to-date results, right, they really haven't had much of an FX impact there. And as you know, we've got hedging programs in place, in terms of our euro denominated receivables or euro denominated sales, I should say, in Europe, and then our yen denominated sales in Asia. So we really try to balance that that out from a risk perspective. So don't see any major impacts from that going forward. So.

Q: And next question just on telecom infrastructure, and obviously we see a lot of headlines backing and forthing on Huawei. But how should we think about the telecom infrastructure business over the next couple of years?

Jugal Vijayvargiya - President and Chief Executive Officer
Yeah, I mean, we would expect, I think, over the next couple years, as 5G continues to take hold, I mean, we would expect that market to sequentially increase similar to what had

happened, I think when we went through the last take, which was on 4G. So I think that's a market that in general, we expect to continue to have improvement sequentially over the next couple of years.

Q: Do you think this is a low point in that business you're seeing right now?

Jugal Vijayvargiya - President and Chief Executive Officer
Yeah, I don't know if I would necessarily say it's a low point, because there's certainly customers that are still ordering, but it's not at the level that, I think, we expected, I mean, some of the COVID issues have certainly slowed that down. But I think we expect it to continue to improve over the next couple of years.

Q: Okay. And then lastly, I apologize if you mentioned this already. But the clad investment appears like it's on track. We don't have a sight yet and we haven't disclosed a customer. And I wouldn't expect you to do that if you haven't done it already. But on your existing business, on your existing capacity, are you still anticipating some sort of pull from that clad customer in, call it, 4Q or the first quarter next year?

Jugal Vijayvargiya - President and Chief Executive Officer
Yeah, yeah, we expect that we will have shipments here in the fourth quarter, and then into the first quarter. So we're quite excited about it. I mean, our teams are working, I can tell you. I just had a review yesterday, and I mean, they're working around the clock to ensure that we have good products that we can build and supply to the customer here in the fourth quarter and then into the first quarter.

Q: Thanks, guys. Appreciate it.

Jugal Vijayvargiya - President and Chief Executive Officer
Okay. Thanks so much, Phil.

Operator
[Operator Instructions] Our next question is from Christopher Hillary with Roubaix Capital. Please proceed.

Q: Hi, good morning.

Jugal Vijayvargiya - President and Chief Executive Officer
Hey, good morning, Chris.

Q: Thanks for taking the question. Obviously, an exciting time for the company with the clad strip investments. Could you take a minute or two and just give us some of the qualities that that product will have, and maybe what some of the applications might look like? And I appreciate you can't be too specific, but maybe in generalities.

And then, either with that or after that, if you wouldn't mind then maybe sharing some thoughts on some of the longer-term demand drivers with both this product and then your broader specialty portfolio, are there certain industry trends that you see kind of being the growth drivers over the medium-term for the Company?

Jugal Vijayvargiya - President and Chief Executive Officer
Yeah, Chris, we're certainly excited about this product. And I just want to remind everybody that we do this, we do this today, and we do it quite well. We supply to a number of different markets today. We supply to consumer electronics market. We supply to the automotive market. We supply to a number of different markets, and we're going to continue to do that.

The issue that I think we've talked about is that as we had basically demand from a customer, we were not able to fulfill that demand with our existing capacity and capability. And so, we're putting in new capacity and capability to be able to provide that demand that the customer has asked. So, I think in terms of the applications, I mean, there are applications that go across a number of different markets.

We are, I mean, our sales team is not stopping here, because one of the things I think that you have anytime you make investments and anytime you make new facilities that you put in place is it gives you greater flexibility, greater opportunity to go and market this product and this technology to customers around the world.

So we're challenging our sales teams to go out and talk to customers around the world and see what other opportunities we can pick up over the next one, two, three years. And hopefully, putting the additional capacity in place will give us some more credibility, in fact, in the marketplace, and so, that's what we plan on doing. And so, we're quite excited about it. It's, as I said, it's the applications in a number of different areas. And then our sales teams are working those.

Q: And is there anything specific you might flag with around electric efficiency or the Internet of Things applications or certain parts of the semiconductor market that you'd give us some, I guess, a kind of a pivot point to think about where some of the extra growth is going to be coming from?

Jugal Vijayvargiya - President and Chief Executive Officer
Yeah, I mean, look, I think a couple of the areas that are really good areas for us to look at are clearly consumer area and automotive. I mean, those are, I think, two – I think those are two important areas for us to point at.

I mean, when you look at, for example, a lot of the devices that on the consumer side that the people are using, I mean, these types of clad strip type of product is an important enabler in those devices. When you look at the automotive side, especially on some of the hybrid EV side, this is an important product segment that we can go after.

So consumer and auto are two very, very good markets for us. And I think as we go forward, I mean, some of the other areas, that we can also look at are energy and industrial markets as well. But I think our primary focus has been on consumer and auto. And it will certainly continue to be in those two markets. But we'll continue to look for other markets, as I say, like energy and industrial, that we can go after as well.

Q: Thank you and great job managing through a difficult period.

Jugal Vijayvargiya - President and Chief Executive Officer
Okay. Thanks very much, Chris.

Stephen Shamrock - Interim Chief Financial Officer
Thanks, Chris.

Operator
We have reached the end of our question-and-answer session. I would like to turn the call back over to management for closing remarks.

Stephen Shamrock - Interim Chief Financial Officer
Thank you. This is Steve Shamrock. And this concludes our third quarter 2020 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
Thank you. This does conclude today's conference. You may disconnect your line at this time and thank you for your participation.