Transcript of
Materion Corporation
Second Quarter 2021 Earnings Conference Call
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Participants

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Presentation

Operator

Greetings, and welcome to the Materion Corporation Second Quarter 2021 Earnings Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Andrew Vento, Manager of Corporate Development and Investor Relations. Thank you, sir. You may begin.

Andrew Vento - Manager Investor Relations and Corporate Development, Materion Corporation

Good morning and thank you everyone for joining us on our second quarter 2021 earnings conference call. This is Andrew Vento, Manager Investor Relations and Corporate Development for Materion Corporation.

Before we begin our remarks this morning, I would like to point out that we have posted materials on the company's website that we will reference as a part of today's review of the quarterly results. You can also access the materials through the download feature on the earnings call webcast link. With me today is Jugal Vijayvargiya, President and Chief Executive Officer; and Shelly Chadwick, Vice President, and Chief Financial Officer. Our format for today's conference call is as follows.

Jugal will provide opening comments on the quarter and an update on key initiatives. Following Jugal, Shelly will review the detailed financial results for the quarter and then we will open the call for questions. Let me remind investors that any forward-looking statements made in this

presentation, 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 regarding earnings before interest and taxes, net income, and earnings per share reflect the adjusted GAAP numbers shown in attachment number 5 in this morning's press release. The adjustments are made in the prior-year period for comparative purposes and removed special items, non-cash charges and certain income tax adjustments.

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

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Thanks, Andrew and welcome everyone. I'm pleased to report we delivered very strong results in the second quarter. We achieved record quarterly value-added sales exceeding our prior record set in the first quarter and recorded our fifth quarter of sequential top line growth. We're seeing strength across key end-markets and more importantly, we continue to outpace that growth by delivering on our organic growth initiatives.

Our Advanced Materials business delivered another quarterly record for value-added sales, recognizing substantial results from our commercial initiatives and strong market demand. I'm very proud of our team's continued dedication to serving our customers in this accelerating demand environment.

Our businesses are effectively managing supply chain and staffing needs and mitigating the effects of inflationary pressures with a well-designed pricing model and good cost control efforts. Along with our strong financial and operational performance, we continue to execute well on our key strategic growth initiatives. Let me talk through a few highlights. Our customer funded engineered precision clad strip project is ramping up.

We’re nearing completion on the construction of our new leading edge manufacturing facility and commencing start-up activities. Our Optics Balzers integration is complete. Our global teams are collaborating on various customer opportunities, and we have several synergistic initiatives underway.

Our organic growth pipeline remains strong across all three segments. We continue to make R&D and commercial investments and work collaboratively with customers to deliver new high performing products to our customers, which will allow the company to continue at above market organic growth rate. And finally, we have been steadily increasing our investments in our facilities and capabilities to support our growth objectives. With accelerating demand and a strong organic pipeline, we’re focusing on projects that will deliver new capacity, enhanced capabilities and improve yields across our business.

We remain confident that these important strategic initiatives along with many others are positioning us as a high performing Advanced Materials company that enables next generation applications.

The space sector has been in the news quite a lot recently. And Materion is proud to serve this exciting industry across all three of our businesses and we look forward to advancing the future of the space market with our innovative solutions. On Slide 7 of our materials, we're highlighting some exciting recent wins and advancements that are helping to enable the growing space sector in a variety of different ways. First, we have announced a partnership in our PAC business to develop nuclear thermal propulsion systems for future NASA space missions. Nuclear propulsion provides greater propellant efficiency as compared with conventional chemical rockets, and can enable faster travel and longer mission durations.

Our products are being explored for use in critical components of the nuclear thermal engine that will propel new missions and exciting discoveries. Materion will be collaborating on this inspiring project with Ultra Safe Nuclear Corporation, Blue Origin, General Electric Hitachi Nuclear Energy, General Electric Research, Framatome and others.

In addition to our continued relationship and growth with NASA, we're supporting the emerging commercial space market in a variety of ways. Let me give you a few examples of our products involved in recent commercial missions. Our Advanced Materials business supplies a gold alloy preform product used to braise the thrusters on many commercial spacecrafts. This product is an excellent solution for joining highly critical components and applications subject to adverse operating conditions due to its high tensile strength, resistance to corrosion and oxidation and superior thermal and electrical conductivity.

Our PAC business has also taken flight in the commercial space arena. Currently, our ToughMet 3 alloy is used in food control systems on commercial space launch rockets. The ToughMet alloy is used because it's extremely strong, is non-flammable when exposed to pure oxygen and it's very easy to machine into complex components.

Finally, Materion provides critical optical components enabling space observation and surveillance. Our Precision Optics business has decades of experience in the design and manufacture of filter arrays that provide high-end spectral performance in extreme environments.

These optical filters enable leading edge space imaging, making them ideal for a wide range of applications including space based instrumentation, surveillance and targeting systems for missile defense and commercial satellites. We recently announced a partnership with The Vera C. Rubin Observatory on a first-of-its-kind custom optical filter set to be used on the Legacy Survey of Space and Time Telescope or LSST, currently under construction in Chile. In our PAC business, beryllium is a preferred material for space related reflective optical systems and sensors. Beryllium's high stiffness to weight ratio, excellent thermal properties, and dimensional stability provides unmatched performance when used as a reflective optic and structures material in space based optical systems.

Materion is proud to have beryllium mirrors that are set to launch in orbit on the James Webb Space Telescope later this year. The space sector represents a great opportunity for market growth and Materion's specific outgrowth based on our broad portfolio of high performing advanced technologies, which continue to drive further space observation, exploration and commercial and non-commercial aerospace missions well into the future.

Now, let me share some comments on the second half of 2021. We've had tremendous success in executing our growth initiatives, delivering two consecutive record setting quarters for value-added sales. We're confident that we'll be able to sustain this momentum into the second half as our strong end-markets coupled with accelerating organic initiatives have positioned the company on a path of continued above market growth.

As a result, we're raising our full-year guidance to $3.25 to $3.45. Again, I cannot stress how proud I'm of our global teams dedication to meeting our customers' needs. I would like to thank them for their hard work and dedication as we move through this outstanding year.

Now, let me turn the call over to Shelly to cover the financial details.

Shelly Chadwick - Vice President and Chief Financial Officer, Materion Corporation

Thanks, Jugal and welcome to everyone joining us on the call today. During my comments, I will reference the slides posted on our website this morning. Starting on Slide 11 and as Jugal mentioned, Materion delivered a very strong second quarter. Value-added sales which excludes the impact of pass-through precious metal costs reached a record $207.9 million, up 31% from the prior year. The increase was driven by robust demand across several end-markets including semiconductor, automotive, industrial and consumer electronics.

In addition, our strong pipeline of organic initiatives is delivering, helping us to achieve above market growth as we continue to develop new advanced material solutions for our customers. We delivered an adjusted EBIT margin of 10.6% and adjusted earnings per share of $0.86, both significant improvements over Q2 of last year.

Looking at Slide 12, our profitability was impacted by several key factors. Adjusted EBIT in the quarter was $22.1 million, up from $12.8 million last year. Our adjusted EBIT margin of 10.6% represents a 260 basis point increase from a year ago. The increase was largely driven by strong volumes, favorable price mix and improved operating performance offset partially by higher SG&A and R&D expenses.

Our team continues to respond well to the increased demand resulting in favorable operating performance. The increase in SG&A and R&D this quarter represents higher variable compensation and our continued investments in R&D. Despite the increased investment, SG&A expense as a percent of VA sales, improved a 150 basis points year-on-year when adjusted for special items.

Now, let me review second quarter performance by business segment, starting with our Performance Alloys and Composites business on Slide 13. Value-added sales were $108.6

million, an increase of 21% compared to last year. The year-over-year increase was primarily due to sales to the new engineered precision clad strip customer, as well as strong performance in the automotive and industrial end-markets.

We are seeing notable growth in our connector materials for the automotive market with new applications and strong demand. Within the industrial sector, rebounding, construction and mining end-markets drove increased demand for our beryllium sprinkler components, appliance connectors, and ToughMet components for bushings and bearings.

EBIT excluding special items was $17.1 million or 15.7% of value-added sales compared to $11 million or 12.2% of value-added sales in the prior year. The increase was due mainly to higher sales volumes, favorable price and improved operating performance. PAC reported double-digit adjusted EBIT margins for the fifth consecutive quarter up 350 basis points from the prior year.

Now let's turn to Advanced Materials on Slide 14. Value-added sales with a quarterly record of $66.9 million, up 28% versus the prior year and exceeding the previous record set in Q1. The increase was driven by higher sales to the semiconductor and energy end-markets.

In semi we are seeing a great response to our commercial initiatives in the data storage and mobile phone applications. And we're supporting a strong overall end-market demand. Within energy, an uptick in commercial construction activity has led to higher demand for target materials used in smart glass, an innovative material used in modern buildings.

EBIT excluding special items was $8.3 million in the quarter, compared to $5.3 million in the second quarter last year. Adjusted EBIT margins improved year-over-year by 220 basis points to 12.4%. The improvement in adjusted EBIT margins was due to higher volume and strong operating performance, partially offset by increased R&D and commercial investments.

Turning finally to the Precision Optics segment on Slide 15. Second quarter value-added sales were $32.6 million up 83% compared to the prior year period. The business saw increases across key end-markets favorably impacted by our Optics Balzers acquisition, as well as strong performance in both our legacy optics and display businesses.

EBIT excluding special items was $2.9 million or 8.9% of value-added sales. As we have previously stated Precision Optics is largely a project based business. Therefore the impact of program timing can have a significant impact on mix and margins from quarter-to-quarter. As a reminder, Precision Optics had a strong first quarter, which results in year-to-date EBIT margins that are up 130 basis points from the prior year.

It is also worth noting that on an adjusted EBITDA basis, Precision Optics margins improved year-over-year in the second quarter as non-cash amortization charges from the Optics Balzers acquisition impacted EBIT margins when compared to 2020.

Moving now to cash, debt and liquidity on Slide 16. We ended the second quarter of 2021 with a net debt position of $34.9 million, and approximately $273 million available on the company's credit facility. The year-over-year increase in debt was primarily related to the Optics Balzers

acquisition. However, we remain well below our targeted leverage range of 1.5 to 3x net debt to EBITDA. We have significant available liquidity and a strong balance sheet continue to invest in our business.

Regarding capital allocation, we maintain a disciplined and balanced approach focusing on organic growth opportunities, returning capital to shareholders through our dividend and the pursuit of strategic inorganic opportunities.

Consistent with our comments in Q1, we expect capital spending of around $100 million for 2021. The higher amount is attributed to our strong pipeline organic growth opportunities, particularly the new engineered precision clad strip project, as well as promising opportunities in each of our segments. We also continue to evaluate acquisition candidates that fit with our strategy and long-term objectives.

Now let's turn to the guidance summary on Slide 17. With the ongoing strength of our organic pipeline and good underlying demand across our end-markets, we're increasing our outlook for the remainder of the year.

Looking first at the third quarter, we expect adjusted earnings per share in the range of $0.80 to $0.84, which is up about 64% from last year at the midpoint. We are raising full-year 2021 adjusted earnings guidance to $3.25 to $3.45 per share. The midpoint of the revised guidance represents a 65% increase from the prior year. This guidance includes an estimated $0.25 per share impact from start-up costs related to the construction of our new engineered precision clad strip facility.

On this slide, we've also noted a few modeling assumptions for you. Overall, based on our first half performance, a strong end-market backdrop and our robust organic pipeline, we feel very encouraged heading into the second half of 2021. We are investing in our business and driving key strategic initiatives to create long-term value for our shareholders in 2021 and beyond.

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

Operator

Thank you. We will now be conducting a question-and-answer session. [Operator Instructions]. Thank you. Our first question comes from a line of Marco Rodriguez with Stonegate Capital. Please proceed with your question.

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

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Hey good morning, Marco.

Shelly Chadwick - Vice President and Chief Financial Officer, Materion Corporation

Good morning, Marco.

Q: I was wondering if maybe you could expand on a comment, I believe I heard in your prepared remarks. When dealing with raw material pressures, I'm assuming this is outside of obviously the metals pricing. But when you talked about some key pricing initiatives that you did to basically kind of offset that if I heard that correctly. Can you maybe expand on that a little bit?

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Yes, Marco. As you know, pricing has been a very important part of our roadmap over the last three to four years, right? We've talked about that quite a bit. And we really try to develop a very strong value based pricing model. And in that we want to make sure that we're having the right price for the value that we're providing for our customers.

As a result of that, anytime that we see situations that warrant a price adjustment, whether it be raw material price increases or any other adjustments, we want to make sure that we have a model that works for us. And we discuss appropriately with our customers. So this year, there's been a lot of challenges. Our company has faced them, others have faced them as well on raw material side as well as on the labor side. We've got a very, very strong model to be able to deal with that.

A large part of our company as you know is dealing with precious metals or just pass-through metals along with beryllium, which is something that we kind of, let's say pass-through with our customers directly anyway. But then for the remaining part, we make sure that we are properly working with our customers on pricing. So pricing has been a very important part of, I think, how we've trained our sales force as we've done both our commercial excellence initiatives over the last few years.

Q: Understood. So just to make sure also that I'm clear here, these pricing initiatives are obviously more geared towards your overall strategic initiatives that you're pushing forward more so than a -- shall we say, just kind of an increase in pricing to try and take care of general raw material price inflation. Is that correct?

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

I think it's both. I think it's actually one of the same when you think about it, right? We want to make sure, as I said, that we continue to provide the right value. And so if we see a situation that, warrant an adjustment based on raw material increases. We've got a model set up where our teams clearly understand that our procurement team, our supply chain team, our sales teams are joined at the hip when it comes to that, and they discussed the situation, and then they act appropriately. And that's been a very, very strong part of our commercial excellence training that we've done over the last few years.

So I think it's actually one and the same for us. But to be more specific, yes, we have taken appropriate steps for raw material adjustments and labor, supply chain. Because, frankly, there's

been increases really across the board. And we've made sure that we work properly with our customers to address those increases.

Q: Got it. Understood. Then, in terms of the strength that you guys are seeing from the end-markets that's helping drive your revenue performance. You also talked about having a robust kind of organic pipeline. Can you maybe talk about, are you guys taking a share in general or is this maybe kind of the economies of the world are starting to open back up, and that's helping kind of accelerate this revenue performance for you guys?

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

I think it's actually both. I mean, we have a number of projects where I think we have new projects being kicked off that we're introducing. So take for example, in the EV sector, we have a lot of activity going on right now with our products to increase market position on the EV side, that's an emerging market. And so therefore, it's helping us quite a bit. You look at our alum scandium product that is really helping on the 5G and the growth associated with 5G.

And then there's other areas where we're introducing new products such as our new ToughMet 2 product that we've just introduced, which is a much, much better product than the typical bronze product. And it's taking share away from that. So I think it's a combination of things we've got. I think we've got great activity going on the organic side on both introducing new products that can take, perhaps replace existing products or take share away as you say, as well as feed into the emerging growth sectors.

Q: Understood, then just kind of taking a look at some of the segment performance at the operating margins from the Advanced Materials and Precision Optics. Just kind of looking at the operating margin performance on a sequential basis that had kind of a bit of a step down. Can you maybe talk a little bit about the drivers there?

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Yes, sure. If you look on the Advanced Materials side. First of all, I want to say that we ended the fifth consecutive quarter that we've had double-digit margins that business has just done really, really well over the last year, year and a half. As we've got driven top-line growth. As we've driven, really bottom-line performance on the operational side. So I'm really proud of the team of what they've accomplished.

I think here in the second quarter, I mean we had a couple of one-time expenses that we've had to deal with, if minor that we've had to deal with. But more importantly, I think we've continued to strengthen the R&D pipeline of that and invest in the R&D side of things. So good strong margins from year-to-date over 13% for that business, as you know, our long-term objective is to be able to get that business to more of a mid-teens type of margin. So a very, very strong margin performance on the Advanced Materials side.

On the Precision Optics. I mean, as Shelly indicated in her remarks. It is a lumpy business, and it is something that, we deal with and we've dealt with for a number of years. On a year-to-date

basis, it's a strong double-digit margin business. We'll continue to see that business to be a good double-digit business as well. But really, it's just the lumpiness of the quarters, which drives it. And then, as she also indicated, the EBITDA margins are actually up on a year-to-date basis. The EBIT margins are up on a year-to-date basis.

So it's more of a quarterly sequencing type of a thing with the lumpiness, so -- I but very strong performance from both of those businesses.

Q: Very helpful. Thank you. And last quick question for me. You've noted some automotive strengths in your business. I was wondering if you can maybe talk a little bit about what you're hearing from your customers that sort of relates to semiconductor shortages?

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Well, clearly, theirs has been impacted by the semiconductor shortage right, on the automotive side. But I think the great thing that we have is, we haven't really had a hiccup on the automotive side. Even though there's been the end-market hiccups because of chip shortages. We've got great products that we're introducing into the EV space that that I think it's contributing to that.

We last quarter talked about our large win with the Visteon on the optical filter side, that that I think is a good growth activity for us. So even though there's chip shortages I think on the end-market side, our business on a year-to-date basis is up 53% on the auto side. And I think it's a combination of the number of great wins that our teams have been able to do.

Q: Got it. Understood. Thank you guys a lot. I really appreciate your time.

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Thanks, Marco.

Operator

[Operator Instructions]. Our next question comes from the line of Michael Leshock with KeyBanc. Please proceed with your question.

Q: Hey, good morning.

Shelly Chadwick - Vice President and Chief Financial Officer, Materion Corporation

Good morning.

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Good morning, Michael.

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Q: So first, I just wanted to get an update -- updated timeline on the new clad strip facility. I know you said constructions nearly complete, but when should we expect that to be finished and how should we think about the cadence to the ramp through the balance of the year into 2022?

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Right. Yes, so again, our teams are making great progress on that. Despite the overall pandemic issues that the world is faced. So the last year and a half, the construction has really been on track. We are nearing completion, and then we will go into what we basically call a validation phase or qualification phase with a customer that'll go on through the end of the year. And then it just depends on that timing and approval from our customer. And then it's our expectation that in the first half of the year, we'll ramp up the facility.

And as with any ramp that you can imagine, it'll be a bit of a trial and error to see how things proceed, Michael. But in the meantime, we continue to shift from our existing facility. Good solid sales, as we've talked about before from our existing facility, and we'll continue to do that until we ramp the new facility. So overall, things are proceeding very well.

Q: You talked a bit about pricing, but given the inflationary environment that we're in. Do you see further opportunities for pricing through the balance of the year? And in what segments do you see more of that those pricing opportunities in?

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Well, I think pricing is something that we push across the company. In all regions and in all businesses, it is something that, is an important part of our equation. As I indicated in an earlier response that I gave to Marco. And it is something that we have in front of us every single day. So we expect pricing to be an important factor in Q3. In Q4, I mean we're -- like you said it's an inflationary environment.

And we make sure that we understand all of our input costs, whether it be supply chain, labor, raw material and are factoring that in as we price our products with our customers. And our customers understand it. I mean they're facing the same issues that we're facing. So this is, I think this is an understood situation. And it's something that we'll deal with here in Q3 and Q4 and any other quarters that we have to deal with.

Shelly Chadwick - Vice President and Chief Financial Officer, Materion Corporation

And Michael, as you know, typically when you put price increases in place, there's a bit of a ramp. So you can expect that impact to build to the back half of the year.

Q: Got it. And then lastly for me on the inventory side. Are you comfortable around your current levels or should we expect a further build in 3Q?

Shelly Chadwick - Vice President and Chief Financial Officer, Materion Corporation

Yes. So I would say, we've seen a bit of an uptick in inventory this year. Part of that is just driven by price. So not all quantity driven, but then you've got some to support the increased levels of business. We'll have a little bit of inventory build to support the new engineer precision clad strip business. But otherwise, we looked for inventories to be at pretty good levels, and we'll try to manage that tightly to increase cash flow.

Q: That's helpful. Thank you.

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Thanks, Michael.

Operator

Our next question comes from the line of Marisa Hernandez with Sidoti. Please proceed with your question.

Q: Hi, good morning. Thank you for taking my questions.

Shelly Chadwick - Vice President and Chief Financial Officer, Materion Corporation

Hi, Marisa.

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Hi, Marisa.

Q: So to follow-up on the clad project. From your prior answers, is that project just as you expect it on a schedule, I suppose to coming in earlier than you anticipated?

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Marisa, I'd tell you that at this time we are on schedule, and we are progressing I would say very well to that. If we realize that our qualification per year with a customer improves, or if there's other adjustments, if we certainly will, of course communicate that to you and everyone else. But right now we are focused and to make sure that we can launch that in the first half of next year. And all signs are indicating to that.

Q: Got it. And then the contribution of the clad product that you're shipping right now in the second quarter. Was that about the same as you were doing the first quarter? Or was there a step increase in that? I'm asking because you call it out specifically in one of the slides?

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Yes, well -- that business as you know is coming from our existing facility. And there's an amount of capacity that we can handle on that existing facility. And so we're making sure that

we're getting as much product out as we can from the existing facility. So it's relatively in line with what we have done over the last three quarters, we really started that off, as you know in Q4, built it up in Q1 and then now into Q2. So it's relatively in line and it's really capacity dependent.

Q: Got it. And on the clad side, are there any efforts underway for new product development, or new customers at this time?

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Yes, I mean precision cladding, engineered precision cladding is a very important part of our business across multiple markets, all regions. And so we're focused, our team knows it very well and very clearly that, that's an important growth space for us. So we're out knocking on doors in many places.

Q: Got it, that's helpful. Thank you. If I can ask you about OB in terms of the synergies. Now that you've had some time to integrate the acquisition, what can you say about the timing for the commercial synergies you were expecting?

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Yes, I think the commercial synergies, I would say are relatively in line with what we have communicated as part of our acquisition, the teams have done really well in working together, as we've indicated, we've got a global organization that we've established, putting the two teams together, they have been working on looking at, from a technology perspective, product perspective, customer perspective where can we take some -- where can we take some opportunities and work together, so it is, I would say it's relatively in line with what we have shared with you. And as we of course we have some items that we can talk about announced, we certainly will do that.

Q: Got it. And then in terms of I know you spoke about the margin earlier, but just to confirm, the value-added sales that dip sequentially, that's also related to the lumpiness of the business or is there seasonal?

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

It is.

Q: Okay. So, you highlighted a bunch of opportunities in the space sector, I was wondering, I understand those are across your different segments. But wondering if you can handicap for us in any way, what the contribution from space can mean for Materion going forward?

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Yes, it's a really important market for us, I would say that we're probably I mean, we don't report space as an end-market as you know, but in general, I would say probably about a $20 million,

$25 million business for us and mainly from our PAC and our optics business with a little bit contribution from our Advanced Materials business. We've got a number of different things, the work that we are working on, whether it be ToughMet products that can go across the various commercial activities without naming some names.

I mean, I'm sure you could understand the various commercial space activities that are going on to optical filter arrays that go across both commercial as well as defense applications and space exploration type areas to the gold preform, that we spoke off that can that's also being used in the space side, in fact it was part of the Blue Origin launch that happened here recently. We would look to have that continue to grow to beryllium based reflective optical systems that can be used across various satellites both in the GEO space and the LEO space. So I think just really across our entire company, I would expect space to contribute well, we've got a great, great set of product offering, I think.

And now it's a matter of, how much does the market really grow. And there's a lot of talk, as you know right now, both on the commercial side, as well as on the defense side. So we'll have to wait and see how the market evolves. But I think we've got a great set of products that can benefit from that.

Q: That's helpful, Jugal thank you. I also wanted to ask about the end-markets. So, you've reported a lot of strength. And I'm wondering, what is left in terms of technical uplift, I suppose aerospace as you say has ways to go. But if you could, perhaps comment on the second quarter trends relative to the first quarter and how do you see continued -- potential continued market improvement from here?

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Yes, if you look at our year-to-date market performance, our top five markets grew 25%, or better. Yes, so really, really good performance in the semiconductor, industrial, aero and defense, auto and consumer side, where I would say that, we've got opportunities like you said, is clearly on the energy side, we've got great performance going on, on a part of our energy business, which is something that we do in the large area target side, but the oil and gas side is challenged, challenged in terms of -- comparison to pre-pandemic levels, it's an improvement of course, from last year, but we've got ways to go to the pre-pandemic levels.

And on the aero and defense side, we started to see some very, very sort of small inklings of a recovery in the second quarter, which is a very encouraging sign on the aerospace side, hopefully that can continue into Q3 and Q4 and start to build more of a momentum for the rest of the year. So those are a couple of areas that, that I think would be really nice to see continued growth in the second half, and then of course into ‘22. But the other markets, I mean we are performing really well compared to the end-market growth.

Q: Got it. So, in terms of aerospace, do you think a big improvement is possible still in 2021?

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Well, I think second quarter was a little bit of a I'd say a bright spot, because we started to see some uptick in the second quarter, I don't want to get too ahead of myself and say that, the same will be the case in the third and fourth quarter, I would like to be able to see that continue. But I think until we see some nice orders come in, both on the MRO as well as the OE side, then I think I'll feel little bit better and perhaps be able to communicate a little bit more confidently what the second half will bring. But second quarter was an encouraging sign.

Q: Got it. And then what's the news about you making some investment or partnership in Pennsylvania, can you comment on that?

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Yes, look anytime that we're looking at this type of growth across our company, we're always looking to see what we can do to add capacity. And we have really good organic growth underway, good market growth underway. And so we want to be able to make sure that we have capacity that we're putting in, we make capacity adjustments, all the time whenever we think it's necessary. So for example, we're doing a refurbishment and a capacity upgrade in our pebble plant, which is in Elmore. It's roughly a $15 million project that we talked about actually, I think it was last year, we may have talked about it, but we've been working on that, we're probably about halfway complete.

And then you know, we have the news in Pennsylvania that you talked about, which is a capacity increase for us. And then we're looking at capacity increases wherever we can, I mean our capital spending is something that we're focused on to make sure we drive appropriate growth. And we'll keep doing that.

Q: Okay, but it still remains the case that some CapEx in 2022 should be down year-over-year?

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

I'm sorry, I didn't hear you, I didn't understand you, sorry.

Q: Sorry, just trying to make sure I understand the CapEx trend for 2022 is it still expected to be down from 2021 levels?

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Well, I mean 2021 is clearly sort of an exceptional year with roughly half of our CapEx associated with our new project and then the other half being a bit of in tailings pond improvement as well and the remaining being the I'll call typical organic growth/maintenance CapEx. So yes, I would expect '22 to start to come down to a lower level, although I would expect it to be higher than our historical organic growth and maintenance CapEx because as we have talked a lot, we're driving substantial organic growth. So I want us to be able to take full advantage of adding capacity around the world and deliver to our customers.

Q: And there is no significant change, I was wondering if the investment in Pennsylvania meant incremental CapEx in ’22 or not necessarily?

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

No, it is not.

Q: Okay, great, well thank you so much for taking my questions and congratulations on a very strong quarter.

Shelly Chadwick - Vice President and Chief Financial Officer, Materion Corporation

Thanks, Marisa.

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Thanks, Marisa.

Operator

Thank you. Mr. Vento, we have no further questions at this time, I would now like to turn the floor back over to you for closing comments.

Andrew Vento - Manager Investor Relations and Corporate Development, Materion Corporation

Thank you. This is Andrew Vento and this concludes our second quarter 2021 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 216-383-4098. Thank you very much.

Operator

Ladies and gentlemen, this does conclude today’s teleconference. You may disconnect your lines at this time. Thank you for your participation and have a wonderful day.

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