Transcript of
Materion Corporation
Acquisition of H.C. Starck's Electronic Materials Portfolio
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Participants

Andrew Vento - Manager, Corporate Development & Investor Relations, Materion Corporation
Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation
Shelly Chadwick - Vice President & Chief Financial Officer, Materion Corporation

Analysts

Marco Rodriguez - Stonegate Securities
Samuel McKinney - KeyBanc Capital Markets
Marisa Hernandez - Sidoti & Co. LLC
Justin Bergner - Gabelli Funds

Presentation

Operator

Ladies and gentlemen, welcome to today's conference call and webcast with Materion Corporation's management team to discuss the acquisition announcement. This time all participants have been placed in listen-only mode. The call will be open for your questions following the presentation. [Operator Instructions]

I will now turn the call over to Andrew Vento, Manager, Corporate Development and Investor Relations. Mr. Vento, please go ahead.

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

Good morning and thank you everyone for joining us to discuss our planned acquisition of H.C. Starck Solutions' electronic materials portfolio. Before we begin our remarks this morning, I'd like to point out that we posted materials on the company's website that we will reference as a part of today's discussion, including a press release and an accompanying presentation to this webcast. You can also access the materials through the download feature on this call's webcast link.

With me today are Jugal Vijayvargiya, President and Chief Executive Officer and Shelly Chadwick, Vice President and Chief Financial Officer. Jugal will provide an overview of the transaction and the strategic rationale, while Shelly will review the financial details, and then we will open the call for questions for Jugal and Shelly.

As a reminder, any forward-looking statements made in this presentation, including those referencing our outlook, whether during the presentation or 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 our most recent 10-K filing.

Additionally, some of our comments may reference certain non-GAAP financial metrics, such as adjusted earnings before interest, taxes, depreciation and amortization. Definitions of non-GAAP measures and reconciliations to reported results are contained in our most recent earnings release.

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

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Thanks Andrew, and welcome everyone. We are really excited to be with you this morning to share details about our acquisition of H.C. Starck Solutions' industry-leading, premium electronic materials business, and talk about how it is accelerating the transformation journey we have been on. But before I begin, I want to take the opportunity to thank all the team members who contributed to this transaction to date, as well as welcome the 140 employees who will join the Materion family upon close. Thank you for your continued commitment, and we look forward to combining forces to create even greater value for our customers.

HCS-Electronic Materials is a leading provider of high purity tantalum thin film materials used in the semiconductor industry, as well as leading edge applications for the industrial and aerospace and defense markets. With a state-of-the-art center of excellence with highly skilled and technical talent, HCS-Electronic Materials serves all top semiconductor manufacturers globally.

With this end market comprising 80% of their sales, there is no market more compelling to us, given the massive growth of chip demand and usage, driven by new technologies we're all exposed to every day. The proliferation of smart devices, high speed connectivity, autonomous driving, artificial intelligence, and the cloud, all drive the need for greater computing power, and semiconductors are at the heart of each of these global megatrends. We expect the demand for semiconductor applications to be sustainable and long lasting.

Our expertise with gold, platinum, palladium, iridium and other exotic materials will be further enhanced by the addition of tantalum which serves to meaningfully enhance our portfolio. The more sophisticated the chip, the more content is required. The combination of Materion and HCS-Electronic Materials truly is one plus one equals three, creating a comprehensive electronic materials portfolio for the semiconductor market.

Let me highlight five key strategic drivers. One, HCS-Electronic Materials increases our access to the high growth semiconductor market and provides greater alignment to the global megatrends. In addition, the combined portfolio will now contain materials which are used by every one of the top 15 global semiconductor manufacturers. Two, it creates significant end-market scale in semiconductor and substantially increases our total addressable market in this space, while also strengthening established positions in industrial and aerospace and defense markets. Three, it

serves to diversify our portfolio and expand our reach across several dimensions, including better geographic balance and adding two advanced materials, tantalum and niobium, and providing access to new leading-edge applications. Four, HCS-Electronic Materials' Massachusetts-based facility is a center of excellence with proprietary technology capabilities, delivering differentiated solutions, driven by key talent that will be joining Materion. And five, HCS-Electronic Materials will serve to meaningfully enhance Materion's overall financial position.

I know that many of you listening today are familiar with our company. But for those of you who are new to Materion, I'd like to take just a minute to bring you up to speed on who we are and the transformation we've been undertaking. With this, you will see how HCS-Electronic Materials is an important next step in our journey. We have developed a diversified portfolio of specialty products, with leading market positions across a number of attractive end markets. Our largest end market is the growing semiconductor market, followed next by industrial and aerospace and defense. With roughly $800 million in value-added sales and solid 15% plus EBITDA margins, we are well-positioned as an integrated producer of high performance, advanced materials in attractive end markets experiencing exciting secular growth trends.

We pride ourselves on the long-term relationships we build with our customers. We are not just the supplier but a true value-added partner of choice, working to understand and solve our customers' most complex technical challenges and creating value alongside them. We do this by applying our deep expertise and core capabilities in material science, compositional synthesis and applications and process know-how. This results in the development of advanced materials with differentiated performance characteristics that support a wide array of applications. With our advanced materials know-how and superior process technology, we are delivering comprehensive solutions aligned with the megatrends driving global growth.

We have been on a journey to transform a traditional mining and metals producer largely focused on our beryllium heritage into a leading advanced material solutions provider. Over time, we have taken steps to optimize our portfolio with high value-add, complimentary products with advanced material characteristics that are critical to our customers' next generation products and technologies. Few years back, we defined our One Materion Global Growth Strategy focused on driving profitable growth. That strategy focused on five key pillars of commercial excellence, innovation, digital, operational excellence, and acquisitions. It is imperative that we execute on each of these fronts to continue and grow as our customers' partner of choice while driving value for all of our stakeholders. We successfully launched and continued to execute our One Materion profitable growth strategy.

We have prioritized investment in R&D to drive innovation and deliver high performing products and solutions to our customers, resulting in the strongest organic pipeline we've had in the history of our company. We have been thoughtful and clear eyed about our inorganic growth framework, seeking out bolt-on opportunities offering complimentary products, technologies and geographies, diverse and attractive high growth markets, differentiated product portfolios, and high-quality talent. Our acquisition of Optics Balzers, which we closed about a year ago, is a great example of how we have made a strategic complementary acquisition to advance our transformation. And where we are going is clear. We are accelerating our global leadership as an advanced material

solutions provider, well aligned with the evolving growth megatrends and the acquisition of HCS-Electronic Materials is the right next step on our journey.

So, coming back to this exciting acquisition we've announced today, HCS-Electronic Materials is a highly attractive addition that aligns perfectly with our strategy, and one which we believe will drive significant value creation. This addition really delivers against all of our strategic objectives, providing industry-leading solutions, critical scale, deep process technology knowledge, a compelling growth and margin profile and greater access to higher value opportunities.

Materion and HCS-Electronic Materials play a critical role in the chip fabrication process. Both are involved in producing leading edge physical vapor deposition, or PVD, sputtering targets, which are used in thin film deposition. Through this process, fine uniform layers of material are applied to the wafer and this process is repeated dozens of times. To bring this to life, HCS-Electronic Materials is currently on their ninth generation of purity and texture control improvements, which are enabling the evolution of shrinking note architectures for advanced semiconductor applications.

As you think about the different types of semiconductors, beginning with RF devices and moving up the spectrum to memory and logic, it's important to mention that these more sophisticated chips require more content. As I mentioned, the combination of Materion and HCS-Electronic Materials truly is one plus one equals three. Combined, we will have a comprehensive electronic materials portfolio for the semiconductor market. One of the things we find extremely compelling in the deep technical expertise of the 140 employees who will be joining the Materion team, as well as the proprietary process technology capabilities that have led to HCS-Electronic Materials' industry leadership. We are excited about the value they will bring to our company.

Where we're headed is the most exciting part of our journey. We are continuing to invest in growth and accelerate our leadership as an advanced materials company and today's announcement, the acquisition of HCS-Electronic Materials, takes another step change in our transformation.

Now, let me turn the call over to Shelly to discuss the financial aspects of the deal.

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

Thanks, Jugal and good morning, everyone. Thank you for joining us today to hear more about this exciting announcement. First, let me share some of the transaction details with you. The purchase price of $380 million reflects an expected adjusted EBITDA multiple of 13 times, or less than 10 times when realizing full run-rate synergies. The addition of HCS-Electronic Materials will be immediately accretive to both our EBITDA margin and EPS. We expect the transaction will close sometime in the fourth quarter subject to customary closing conditions. Upon close, this business will be part of our Advanced Materials segment.

The combination is expected to add annualized 2021 sales of approximately $145 million increasing our value-added sales by 19% to more than $900 million on a pro forma basis. In addition, pro forma EBITDA will top $143 million, representing an increase of more than 25%. With strong EBITDA margins of 20%, the addition delivers an immediate 100 basis point

improvement to our pro forma profitability. From a synergy perspective, we see an opportunity to meaningfully enhance two already strong businesses. The biggest factor at play here is the broad access to all 15 top semiconductor manufacturers. Given the strength of the combined portfolio, and this strong access, we see an opportunity for cross-selling in both directions. In addition, we will apply the full reach and capabilities of the Materion sales force to our newly expanded product line and leverage our R&D organization to identify new applications.

Combined with purchasing synergies and our operational excellence discipline, we expect stronger sales and margins with the combination of these organizations. We expect to realize $4 million of run rate synergies by year three, and $10 million by year five. The great news is that the addition of HCS-Electronic Materials is compelling purely on a strategic basis, but the combination also provides a strong accelerant to growth and meaningfully enhanced margins.

Now, let me talk a little bit about the financing. The transaction will be funded by a well-balanced combination of a new $300 million five-year term loan and borrowings from our $375 million revolver, of which we'll be using $80 million for this transaction. We expect to have additional availability under that revolver of about $200 million at close, providing strong liquidity when combined with our global cash balances. The new term loan is an attractive debt instrument with an appealing cost of capital and a simple structure aligned with the terms of our existing revolver.

We expect pro forma leverage at closing to be approximately 2.9 times, which is within our stated target range of 1.5 to 3 times. We are comfortable with this leverage level for a number of reasons, as the acquisition fits within our strategic transformation framework and, quite frankly, checks all the boxes. And we have strong free cash flow generation that will afford us the opportunity to not only pay down debt at an appropriate pace, but also enable us to fund our ongoing growth agenda. I am pleased that we're able to execute and comfortably finance such a strategically important transaction in a compelling and attractive manner.

Let me close by saying that this is an exciting transaction that meaningfully accelerates our strategy to become a global high performing advanced materials solutions provider serving diverse and attractive markets that are aligned with growth megatrends. We are building a robust pipeline with investments in R&D, as we focus on developing innovative solutions for a growing set of customers. We are leveraging our strong cash generation and deploying it in a disciplined and thoughtful manner toward profitable growth opportunities. And finally, we are part of an energized management team focused on executing our strategy and creating value for all of our stakeholders.

This concludes our prepared remarks and with that, we'd be happy to take your questions. Operator?

Operator

Thank you. [Operator Instructions] Our first question is coming from the line of Marco Rodriguez with Stonegate. Please proceed with your question. Please standby one moment, please. Mr. Rodriguez, please go ahead with your question. One moment, please. You may – sir, perhaps your line is on mute, we're not able to hear you at the moment. Please go ahead with your question, Mr. Rodriguez.

Q: Yeah. Can you hear me?

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Hey, Marco. Yes, we can.

Q: Okay, good. Well, sorry about that.

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

No problem.

Q: Thanks for taking the time here and taking my questions.

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Absolutely.

Q: We're wondering if maybe you can talk a little bit about how this acquisition kind of came about?

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Well, I can talk to that. I think let me just talk about our strategic direction. We've talked about how we got a roadmap of where we want to take the company and I think this just fits right down the fairway of that roadmap. We want our company to be a truly an advanced materials company, serving the most dynamic, high growth markets. This acquisition, I think, fits exactly that arena serving the semiconductor market, the aerospace and defense market, the industrial market.

We actually -- with this company, we have a long history of working with them through commercial relationships, so we know them quite well. And as the opportunity came up, we looked at it and really thought that this presented some great value for us, and really helps us to create a sort of a global leader in this semiconductor space. So, I think this is exactly in line, Marco, with the type of things that we've been talking about and I think the direction that we've been outlined for the company.

Q: Great. Very helpful. And can you maybe talk a little bit about HCS' historical growth rates and margins and if maybe you can put any sort of color around seasonality in their financials?

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Yeah, you know, when you look at, I think, the semiconductor market in general, I mean, as you know the market has done quite well over the last couple of years and two-thirds of their business is roughly in that arena, and then you've got industrial and aerospace and defense. I mean, some parts of the businesses clearly have taken a hit from the pandemic but other parts of the business,

I think, have done really well. In general, their business has performed above market growth, which we're really excited about, because I think that gives us the confidence in the track record of what they've been able to deliver.

I think from a seasonality standpoint, what's really important, I think, as we go forward, particularly in the semiconductor side, is the idea of seasonality that used to exist, I would say, a few years back, it seems to be going away, I mean, almost, but just because of the number of high-growth areas, megatrend-related areas that the semiconductor side is serving. It's no longer just the handsets and no longer just the consumer electronics, you know semiconductors are everywhere, whether it's automobiles, whether it's aerospace, whether it's defense, industrial, so the applications for semiconductor, I think, are going to cross various markets. And as a result of that, I think the seasonality is not as significant as perhaps it may have been at one time, you know, in the overall semiconductor space. So, we're quite excited about what they've done historically, and we think that's a great launch-pad for where the business will go.

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

And, maybe just to jump in on profitability, the profitability has been very strong and attractive. We've seen some improvement in the last couple of years as semiconductor has outgrown the other markets, but it's been a really strong performing business, and one that's going to be accretive to our margins. So, we're excited about that.

Q: Got it. And then in terms of the, the approval process, I think I did see some mention of some regulatory approvals are necessary. Maybe you can discuss that. And then if maybe you're expecting a full quarter in Q4 results when this is expected to occur?

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Well, I think our expectation is that it'll close sometime this year, so, in Q4, I mean, full quarter would have to mean that it would close by the really by the end of this month, in two weeks. So, I could probably say that it's probably safe to assume that it may not happen in that quick of a timeframe. But it's standard regulatory approvals. From our perspective, we don't really see any significant issues with that. We're operating in a segment that I think has many suppliers out there, I think it has a lot of great competition out there. So, we don't really see any issues with that. And we expect this to be a fourth quarter -- sometime in the fourth quarter close.

Q: Got it. And then just last quick question for me just kind of a higher level, trying to understand the HCS position. Are there any specific end market applications or maybe a market share position that they have in a particular application or applications that are the primary drivers of their performance or is this more of a, I guess, a leverage play towards the growth in the semiconductors, in general?

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

I think they have a really a leading position and being able to offer tantalum solutions into the semiconductor market. Tantalum is an extremely, extremely critical material in the semiconductor

space. It is the diffusion barrier between copper and silicon, when it comes to the, especially the new higher-level chips, whether it's the logic processors or the or the higher-level memory chips, I mean, we all know, data is king these days. And whether it is data processing, data storage, data analytics, data is king and so for that more and more chips of the higher complexity, so higher nodes, which means at the end of the day, more copper layers, which then means more tantalum layers are going to be required, and that's really the fundamental growth.

So, I think this company, and this portfolio is not only benefiting, of course, from the semiconductor market growth, but I think there's a great opportunity for content increase, and that's what we like about this. I mean, we're focused a lot on making sure that our business is really geared towards those high growth segments of our businesses today, on all three of our segments as well as, of course, what we're picking up here. So, we're really excited, I think, about the portfolio that we're picking up because it's an increasing content portfolio.

Q: Got it. Very helpful. Thank you. I appreciate the time.

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Yeah. Thanks, Marco.

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

Thanks, Marco.

Operator

Thank you. Our next question is coming from the line of Samuel McKinney with KeyBanc Capital Markets. Please proceed with your question.

Q: Hi, congratulations on the transaction. It's exciting stuff.

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Yeah, thanks, Sam.

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

Thank you.

Q: If we move into maybe looking at your existing semis business before this transaction, are you currently running at full capacity in that business and kind of talking about how HCS is going to fit into it? And what's the gains and outlook of your current order book, as we do move into the fourth quarter?

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Well, I think right now the semiconductor market in general continues to perform well, right. We read stories every day about shortage of semiconductor chips. Power plants, for example, not being able to produce cars because of shortage in semiconductor chips. And so, I think, in general, the output from semiconductor suppliers or suppliers that are inputting into the semiconductor production process, I think, is probably at an all-time high. So, we are engaged very heavily in that. Our facilities are running, I'm going to say, basically, around the clock, I mean, to be able to support the semiconductor market, and we hope that the markets will continue to be that way.

When I look at the role that HCS-Electronic Materials plays, I think it's very -- I think there's a great opportunity for them to contribute to this as well, which they've been doing over the last few years and I think they're going to continue to do that. What's really exciting for us, I think, is we see this continuing. We see the semiconductor market in general continuing to grow over the next three to five years, and I think both the business that we're picking up as well as our existing business will continue to grow.

So, we're driving significant operational excellence across the board to be able to create space. We're making investments in equipment to be able to grow and support that growth. So, we've got facilities that we feel good about, and I think picking up the Newton facility is an excellent add to that to be able to support the very growing semiconductor market.

Q: Okay, great, thank you. And then when we look at this new $300 million term loan that's going to be used to finance a majority of the transaction. I know, Shelly, you mentioned that had an appealing cost of capital, is there any more detail that you can give us around that, about the interest rate and what it's going to cost?

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

Yeah. So, if you look at today's rates, we'd be just under 3%, which we find quite attractive, and we'll go from there to see how markets play out.

Q: Okay. Thanks so much. And are you assuming any D&A that you're taking on with this new deal?

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

Yes, but I think we'll talk about that as we get closer to close. We've got an opening balance sheet to work through and certainly there will be amortization, but we'll be able to give you a better guide on that as we get closer to closing.

Q: Okay. And then last one for me. Thank you for the EPS and the EBITDA improvement detail but when we look at the assumed EPS accretion, more specifically, is that taking into account purchase price accounting and synergies? And if not, does that change your assumption?

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

So, we talked about EBITDA accretion, we did not yet guide to EPS, just for the reason you're mentioning because we've got that opening balance sheet work to do, we've got the amortization to assume. So, right now we're just looking at kind of what this does for EBITDA and for margins.

Q: Okay, thanks. That's it for me.

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

Thank you.

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Bye. Thanks, Sam.

Operator

The next question is from the line of Marisa Hernandez with Sidoti. Please proceed with your questions.

Q: Hi. Good morning and congratulations.

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

Thanks, Marisa.

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Hi. Good morning, Marisa. How are you?

Q: Good. Good. Thank you. So, a couple of questions from me. On the transaction itself, I noticed that at some point in the presentation, you refer to it as a carve-out, so are you taking only a portion of the company? How does that work?

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Well, the HCS or the H.C. Starck Solutions is a larger entity that has various other businesses and the business that we have taken on is the electronic materials business, which is the business that is located in the Newton facility. So that's what we mean by just simply, it is that facility and then the manufacturing processes, the people etc., that are associated with that is what we have signed the acquisition intent for, so that's what we're really quite excited about. And that supports the semiconductor space, as well as the aerospace and defense in the industrial space.

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

And the good news is it was really all centralized in that one facility. So, it's not as though you're trying to break apart several facilities amongst businesses; it was a nice, clean carve out.

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Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Exactly.

Q: Perfect. Thank you for that clarification. Also, on the nature of the synergies, could you elaborate a little bit on how you plan to accomplish those? I'm under the impression that it's more on the revenue side than on the cost side but if you could give some color on that, that'd be great.

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Yeah. Well, I think, if I start with kind of the acquisition that we did about a year ago with Optics Balzers, we clearly stated that our objective was to put the two entities together, our entity and Optics Balzers together, and to be able to grow the business, accelerate our growth, which then of course drives better bottom-line performance. And I think it's the same situation here. We are wanting to put this business together with our existing businesses in semiconductor and aerospace and defense, industrial and then drive significant top line growth. So, that is what we're focused on.

We want to make sure the R&D investments continue, and we want to make sure that we leverage the sales force -- the global sales force of the two organizations to really grow. We indicated, for example, in semiconductors that, now, on a combined basis, we would have a business with all top -- every one of the top 15 semiconductor manufacturers. I think that's a great leverage point for us to be able to grow the top line.

There are certainly opportunities. I think, from a cost standpoint, no question. I mean, we're not looking at of course, any type of facility closures and things like that, because it's just the one facility that we're picking up, but there are certainly opportunities for us to use our operational excellence standards. We've done that over the last four years within Materion and we hope to be able to do that at the facility in Newton.

We want to be able to look at what investments we could possibly make, to then drive a lower cost structure for the business, and if there's opportunities for us to do that and then just the general scale of the two businesses and being able to take advantage of the buying power between the two companies. So those are some cost types of things. But I think what we are really excited about is what we can do on a combined entity basis to drive the top line.

Q: Okay. That's super helpful. Thank you. Now, just to make sure I understand how you're thinking about the potential here. So, the expected EBITDA I think you said is 29 million in 2021 and then the full amount of synergies you expect in five years is 10 million. But that could be on top just to make sure I understand this, of the growth that would come on a standalone basis, meaning that 29 million, 30 million EBITDA growth from the market itself, those 10 million would be on top, is that the right way to think about it?

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

Yeah. Marisa, you have that exactly right. So, we certainly expect great growth from this business and then on top of that we expect to add the synergy amounts and are targeting 10 million by year five.

Q: Okay, thanks. If I can squeeze one more on the business itself, so the EBITDA margin, as you mentioned, is very attractive. And I was wondering, comparing it to your semiconductor division, what makes it structurally higher, if you could comment on that, please?

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Well, I think the EBITDA margin that Shelly spoke to, that's at the company level, right and then what it does for us, I think, at the company level is what it ends up doing. Each of our businesses, as you can imagine, operates at different levels of margin. It's at different maturity level of kind of where we are in terms of driving operational excellence, commercial excellence, etc. So, it's at different stages. So, I don't think we can necessarily compare, I mean, because it would be sort of apples and oranges and we don't report a semiconductor business EBITDA margin, right.

We report, I think, at the company level or the EBITDA margin. So, I think it's a great opportunity for us to pick up a little bit of EBITDA accretion, as Shelly has pointed out. And our goal is to continue to do the same thing that we've been talking about in every other call, which is drive the entire business to a more of a mid-teens type of an EBIT margin. So that goal will continue. We will continue to focus on that and hopefully we can keep reporting progress on that every quarter.

Q: Thank you.

Operator

Next question comes from the line of Justin Bergner with Gabelli Funds. Please proceed with your questions.

Q: Good morning, Jugal. Good morning, Shelly. Congratulations.

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

Thanks, Justin.

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Thanks, Justin.

Q: A few quick questions, can you speak to whether or not this was a competitive bidding process?

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

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Yeah, I mean, look, we don't get into the specifics of course of what the seller may have been doing. We participated in a process and I'm sure there were probably competitors out there that were involved but that's something that we're probably not in a position to answer.

Q: Okay, that's fair. The 2.9 times leverage, is that based on where you expect things to look trailing 12 months at September 30, or is that based on June 30 trailing 12 months?

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

Yeah, that's more based on June 30. But our EBITDA will grow, so expect that we'll be able to impact that favorably.

Q: Okay. And then in terms of the synergies, I guess you don't want to be too specific right now as to the breakout of revenue and cost synergies. But if there's a large revenue synergy piece, why does that take five years for this deal versus sort of the more three-year timeline for Optics Balzers?

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Yeah, well, I think when Shelly spoke to the synergy, she mentioned 10 million by year five. Now, as you can imagine, there's probably some step-by-step growth of those synergies. So, it's not intended to be -- our communication is not intended to be that it's a step function 10 million in year five. There will certainly be some synergy, both on the cost side and the revenue side, that'll move forward.

And now, I will tell you, though, that in the semiconductor side, it is extremely a lengthy process to be able to develop and qualify with the customers. We know it very well, because we serve that market very well today. And so, we plan to work with the two teams together and make sure that we take full advantage of it and get it as soon as we can on the top line. But yeah, it's not intended to be 10 million in year five; it's 10 million by year five.

Q: Okay, that makes sense. I thought I also heard 4 million by year three, so I was assuming the ramp was towards the back end of that time period. Correct me if I'm wrong?

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

Yeah, that's correct. So, there is a ramp included in there and assumed there, you are correct.

Q: Okay. Got it. And then the last question is, I know that Advanced Materials, you're excited about that business, it is a business that has to kind of go against the headwinds of price pressure and some substitution risk. Is there anything sort of in the acquisition today that sort of speaks to kind of lower price risk or lower substitution risk than what's in your existing Advanced Materials portfolio?

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Yeah, well, first, let me just talk about existing Advanced Materials portfolio, I think when we talk about price pressure and sort of the substitution risk, I mean, that really comes to are we in shorter cycle type of businesses in general, end market type of businesses, so those being handset type of devices, handheld type of devices, or perhaps even laptops or something that could easily switch to a different technology.

I think when we talk about this business, this business as we talked about -- as I talked about earlier, is based on tantalum and being able to use tantalum for devices that are of higher complexity type of devices that are being introduced and are growing significantly; tantalum is a required material for that. I mean, there is not a substitution. You can't substitute tantalum with something else and create that diffusion barrier that tantalum provides between the silicon and the copper. As I indicated earlier, copper usage in semiconductors is increasing, and therefore, tantalum usage in semiconductors is increasing. So, I think the material that we're speaking to, there is really not a substitution that can come forward.

When you look at even our existing business, and you look at whether it's gold or platinum, or palladium or anything, those are also materials that are used in the semiconductor space. There are really not substitution materials for those. I think, when you're talking about some of the risks that exist, those risks probably happen more at that end market level and certain end market portfolios, but it's definitely not in our type of materials portfolio, the Advanced Materials portfolio that we have and that we're picking up.

Q: Great, thank you. That's helpful.

Operator

Thank you. At this time, we've reached the end of our question-and-answer session, and I'll turn the call over to Jugal for closing remarks.

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Okay, thank you. Yeah, I think as we've indicated in our prepared remarks and then also in the Q&A, we're really excited about this acquisition. I think this is just right down the fairway for us when we think about the type of products, the type of technologies, the customers, the geographic expansion that this gives us, and the talent that we pick up. The talent that's associated with the number of years, over 20 years of experience in developing tantalum type of products for semiconductors. The talent that we pick up that has a tremendous manufacturing capability, process capability to develop the type of purity products, the type of grain structure products that we are picking up. I mean we are really excited about it because we think it truly is a one plus one equals three and we can't wait to get this closed and have HCS-Electronic Materials be part of the Materion family and run as a single business in support of the growing semiconductor market as well as supporting the industrial and the aerospace and defense market. So, just want to say that we're quite excited about it and looking forward to sharing more with you, as developments happen.

Operator

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This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.

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