Transcript of
Materion Corporation
Third Quarter 2021 Earnings Call
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Participants

John Zaranec - Vice President, Corporate Controller & Investor Relations, Materion Corporation
Jugal Vijayvargiya - Chief Executive Officer, President & Director, Materion Corporation
Shelly Chadwick - Vice President, Finance & Chief Financial Officer, Materion Corporation

Analysts

Marco Rodriguez - Stonegate Capital
Phil Gibbs - KeyBanc Capital Markets
Marisa Hernandez - Sidoti

Presentation

Operator

Greetings and welcome to the Materion Third Quarter 2021 Earnings Conference Call. [Operator Instructions] As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, John Zaranec, Vice President, Corporate Controller and Investor Relations. Please go ahead sir.

John Zaranec - Vice President, Corporate Controller & Investor Relations, Materion Corporation

Good morning, and thank you, everyone, for joining us on our third quarter 2021 earnings conference call. This is John Zaranec, Vice President, Corporate Controller and Investor Relations 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 throughout 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 strategic initiatives. Following Jugal, Shelly will review the detailed financial results for the quarter, and then we will open the call for questions.

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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 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 discrete income tax adjustments.

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

Jugal Vijayvargiya - Chief Executive Officer, President & Director, Materion Corporation

Thanks, John and welcome everyone. We are really excited to be with you this morning to share details of our third quarter record performance and to talk more about the acquisition of HCS-Electronic Materials, which closed yesterday. This is an exciting time for Materion. Our sales are an all-time high. Our pipeline of organic growth projects is robust and contributing significantly to top line growth. Our plants are performing well and delivering for our customers in some challenging conditions. And we've just closed on the largest and most strategically important acquisition in our company's history. We are delivering on all fronts and it's all thanks to our dedicated employees around the world.

In the third quarter, we delivered a record $216 million in value-added sales, up 31% from prior year. Underlying market demand continues to be strong across many of our key end markets and we're starting to see recovery in aerospace and oil and gas. Aerospace has now grown year-on-year for two consecutive quarters. Oil and gas saw its second consecutive quarter of growth. But what's most exciting to us is we are outgrowing markets as a result of our organic initiatives. Our focus on investments in R&D over the past few years is paying off, as we are launching more new products and applications than ever before, applications which span across all key markets and in support of important megatrends. Our sales into the EV market are doubling for the second consecutive year. Growth in the semiconductor space is far outpacing markets as we forge ahead with new applications in support of increased electronics content. Introductions of new products such as ToughMet 2 are increasing our total addressable market.

And our earnings are even more impressive, up 120% year-on-year, delivering highest level of EPS to date. Margins are almost 13%, approaching our target of mid-teens. To achieve this level of profitability in the face of challenges such as staffing, supply chain and inflationary pressures is something we are extremely proud of. We're not immune to these challenges but our teams have stepped up and are delivering for our customers working closely with our suppliers and maintaining operational excellence. We continue to effectively manage global supply chains and staffing needs through hard work and proactive planning. Our value-based pricing model, precious metal pass through agreements and vertical integration continue to assist in mitigating the effects of inflationary pressures, and our teams are keenly focused on operational excellence and effective cost control.

Along with our record financial performance, we continue to execute well on our key growth initiatives, including the engineered precision clad strip project. Our new facility is now in the process of commissioning equipment and qualifying products in preparation for serving higher levels of demand next year. We also continue to make other global investments in our facilities and R&D to support our broad growth objectives.

In addition to our organic growth investments, we are extremely excited to highlight the completion of the HCS-Electronic Materials acquisition. This highly strategic and transformative addition significantly increases our access to the high growth semiconductor market and aligns us with the top semiconductor manufacturers globally. We announced the close of the transaction yesterday, and we're even more confident in the combined power of Materion and HCS-Electronic Materials as we move forward as one company. As a reminder, HCS-Electronic Materials is a leading provider of high purity tantalum, thin film materials used in the semiconductor industry, as well as leading edge tantalum and niobium 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 of the 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.

HCS-Electronic Materials is a natural fit for Materion, because it really checks all the boxes for us. It aligns well with our strategy, brings high-value proprietary products with critical scale and has compelling financial profile that will be immediately accretive to earnings and margins. The addition of HCS-Electronic Materials is the right next step for Materion, as we accelerate our global leadership as an advanced materials solutions provider, well-aligned with the evolving growth megatrends. If you missed the announcement of this acquisition in September, I encourage you to visit our investor website for more details.

Now, let me share some comments on the remainder of this year and our expectation for full year results. We've delivered three consecutive quarters of exceptional performance and expect to continue this high level of performance as we finish out the year strong. Taking into account normal year-end seasonality, we expect Q4 earnings in the range of $0.95 to $1.05, raising our full year guidance once again to $3.73 to $3.83, an increase of 86% from the prior year. I cannot stress how proud I am of our global team's dedication to meeting our customers' needs and executing on our organic and inorganic growth initiatives. I would like to thank our teams for the hard work and dedication, as we finish out this record setting year and as we officially welcome the HCS-Electronic Materials employees to the Materion family.

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

Shelly Chadwick - Vice President, Finance & 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, as we mentioned, Materion delivered a record quarter for value-added sales, adjusted EBIT and adjusted EPS. Value-added sales, which exclude the impact of pass-through precious metal costs, reached an all-time high of $215.8 million, up 31% from the prior year. The increase was driven by robust demand across several end markets, including semiconductor, automotive, industrial and energy. We delivered an adjusted EBIT margin of 12.9% and record adjusted earnings per share of $1.10.

Looking at slide 12, our profitability was impacted by several key factors. Adjusted EBIT in the quarter was 27.8 million, up from $14.1 million last year. Our adjusted EBIT margin of 12.9% represents a 430 basis point increase from a year ago. The increase was largely driven by higher volumes, including organic outgrowth, positive mix, improved pricing, and favorable operating performance, partially offset by higher SG&A and R&D expenses, and planned startup costs related to our new engineered precision clad strip facility. Our team continues to deliver despite operational and supply chain challenges. 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 200 basis points year-on-year when adjusted for special items.

Now, let me review third quarter performance by business segments, starting with our Performance Alloys and Composites business on slide 13. Value-added sales were $115.2 million, an increase of 41% compared to last year. The year-over-year increase is driven by strong performance in the automotive, industrial and aerospace and defense end markets, as well as sales to the new engineered precision clad strip customer. We continue to see notable growth in our connector materials for the automotive market, doubling sales to EV-specific applications and increasing content across global platforms. Both the aerospace and energy markets continued rebounding from 2020 lows.

Value-added sales were also favorably impacted by higher beryllium hydroxide shipments and defense program revenue, which will not repeat at the same level in Q4. EBIT, excluding special items, was 20.8 million, or 18.1% of value-added sales compared to $9.3 million, or 11.3% of value-added sales in the prior year. The increase was primarily due to increased sales volumes, strong mix and improved operating performance. PAC reported double-digit adjusted EBIT margins for the sixth consecutive quarter, up 680 basis points from the prior year.

Now let’s turn to Advanced Materials on slide 14. Value-added sales was a quarterly record of $69.7 million, up 27% versus the prior year and exceeding the previous record set in Q2. The increase was driven by accelerating organic initiatives and strong demand across all end market applications. EBIT, excluding special items, was $9.2 million in the quarter compared to $5.8 million in the third quarter last year. Adjusted EBIT margins improved year-over-year by 260 basis points to 13.2%. The improvement in adjusted EBIT margins was due to higher volumes, positive pricing and strong mix.

Finally, turning to the Precision Optics segment on slide 15. Third quarter value-added sales were $31.2 million, up 10% compared to the prior year period. The business saw increases across key end markets, including industrial, automotive and consumer electronics, partially offset by

declines in medical and defense, where some program revenues have developed slower than expected. EBIT excluding special items was $3.5 million, or 11.2% of value-added sales, a sequential improvement of 230 basis points. As a reminder, with Precision Optics being largely project based, the impact of program timing can have a significant impact on mix and margins from quarter-to-quarter. Year-to-date, adjusted EBIT margins are up 30 basis points from prior year and EBITDA margins for this business are healthy 19.9% year-to-date, up 290 basis points versus the prior year.

Moving now to cash, debt and liquidity on slide 16. We ended the third quarter of 2021 with a net debt position of $61.5 million and approximately $319 million available on the company's credit facility. At the end of the quarter, we were well below our targeted leverage range of 1.5 to 3 times net-debt to EBITDA. With the closure of the HCS-Electronic Materials acquisition yesterday, we've included a pro forma column to show leverage is still within the range, even with the acquisition layered on to our actual results.

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. We were thrilled to be able to complete the transformational acquisition of HCS-Electronic Materials using an attractive financing structure with an appealing cost of capital. Consistent with our comments over the course of the year, we expect capital spending of around $100 million for 2021. The higher amount is attributed to our strong pipeline of organic growth opportunities, particularly the new engineered precision clad strip project, as well as promising opportunities in each of our segments.

Now, let's turn to the guidance summary on slide 17. We expect to close out this record year strong, with fourth quarter earnings in the range of $0.95 to $1.05 per share, an increase of 43% from the prior year at the midpoint. This performance reflects normal Q4 seasonality and the Q3 timing of PAC's beryllium hydroxide and defense revenue mentioned earlier. We even included an estimated $0.05 for two months of HCS-Electronic Materials, which is $0.13 without purchase amortization. As a result, we are raising full year 2021 adjusted earnings guidance to $3.73 to $3.83 per share. The midpoint of the revised guidance represents an 86% increase from the prior year.

On this slide, we have noted a few modeling assumptions for you. Overall, we expect a very strong finish to 2021 capping off a record year from Materion. We are delivering on our organic and inorganic initiatives, and meeting strong end market demand while continuing to position the company for sustainable profitable growth.

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

Operator

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

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

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

Good morning.

Jugal Vijayvargiya - Chief Executive Officer, President & Director, Materion Corporation

Hi. Good morning, Marco.

Q: I was wondering if maybe you guys can spend a little bit of time on some of the constraints that obviously everybody is experiencing and specific maybe on the labor challenges that you might have also been experiencing. And in relation to that, if maybe you can talk about the rise in wages that you've kind of had to experience here and wondering how you are maybe thinking through that rising costs and how you might be able to reduce that impact in the long term.

Jugal Vijayvargiya - Chief Executive Officer, President & Director, Materion Corporation

Yeah, Marco. As you noted, I mean, those challenges, I think are in the industry and that seems to be everywhere, right, both on the supply chain side as well as the labor side. Our team has just done a fantastic job of working through in each of our plants, getting people, getting them trained. It has been -- it has clearly been a challenge. Training, as you can imagine, has been probably the biggest challenge after finding people. We've used many creative ways to be able to have job fairs, to incentivize people to interview with us, and then further incentivize people to join our company. And then our team has done a nice job of putting together the training programs, because the jobs require that the folks come in, get the proper training, safety being our overall overriding priority, making sure that we can do things in a safe way and so training is important, and then getting those people started. So, it has been a challenge, no question, but I think the team has done a very nice job, as is demonstrated by I think the sales that we've had across the board and really in all of our markets.

With regard to, I think some of the cost impacts and things, I'll let Shelly maybe just comment on the cost side.

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

Yeah, sure. So on the wage side, I think every company is dealing with the challenges of how to not only attract but also retain their talent and so we've been more selective with going through and trying to make sure that our wage rates are at market and keeping up with market, so we've done increases where we felt they were needed to keep rewarding our people and keep them energized to stay with Materion, so not only are we trying to attract but we're also trying to retain.

Jugal Vijayvargiya - Chief Executive Officer, President & Director, Materion Corporation

Yeah, I think the other thing to note on that related to what Shelly is indicating is we've got a model that we really established within the company to ensure that if we're experiencing cost pressures, whether it's supply chain type pressures, labor pressures, anything like that, that we

really are taking a look at those in a very careful way, and working with our customers in an appropriate way to recognize those. So I think the team has built a good model around that as it is demonstrated by, I think, our margin performance.

Q: Got it. Very helpful. And then in regard to that, also kind of an offshoot, if you will, a lot of individuals are obviously impacted by these rising inflation costs, and a lot of companies are raising their prices, suppliers, like yourselves are also pushing through the additional costs. I'm assuming, and I saw some remarks about price mix were a benefit for you guys this quarter, are you finding it relatively easy, if you will, to kind of push through price increases to counteract the inflation you might be receiving?

Jugal Vijayvargiya - Chief Executive Officer, President & Director, Materion Corporation

Well, I wouldn't necessarily just say it's relatively easy, because I think anytime you're looking at pricing, it's an issue, whether it's a supplier that's coming to us, that's clearly a challenge, we don't just simply accept the price that they bring forward and I'm sure that the same, with our customers as well. I think it's really important for us to be able to build the right story and help our customers understand what the situation is and be able to demonstrate the clear market dynamics. If, of course, customers kind of have that feeling today, just because they're probably experiencing that from really all of their suppliers but I think we've done, again, a nice job where we demonstrate to our customers what the dynamic is and why we are doing what we're doing and then have a have a thoughtful discussion, and then from that be able to process those pricing, but I wouldn't say it is necessarily easy, but I think it is something that we're able to have a good thoughtful discussion with them on.

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

And one of the things that's really beneficial about our company, as you know, is that we have the metal pass through. So, we're seeing inflation, it's kind of other materials, some utilities, some shipping rates, so we're not experiencing big raw material increases that we need to go out and recover, because we've got those pass-through mechanisms straight to our customer. So, while it's not easy, never easy to get price, we're dealing with a bit of a smaller impact for maybe this company.

Q: Got it. And then switching gears here into the closing of the Starck acquisition, can you maybe walk through some of your near-term integration efforts and any specific goals you're looking to achieve here?

Jugal Vijayvargiya - Chief Executive Officer, President & Director, Materion Corporation

Yeah, I think one of the things that Marco we have a really good handle on is because a year ago we did the Optics Balzers acquisition and so we've established a model that I think worked very well during that and we're basically using as much of that model into the integration efforts here with HCS-Electronic Materials. We've got an integration leader that we put in place, full time integration leader. We've got functional support. And really, we're looking at integration from two fronts; one is more of a process integration and the other one's more of a business integration. But

at the same time, we want to make sure that HCS-Electronic Materials continues to do well what they have done, which is support customers, deliver great products, great quality, on time and so we don't want to disrupt that. So we do have a fairly detailed integration model that we put together, both from a process side and from a business side with the leader and with functional support and at the same time, making sure that the business continues to run and perform well like it has over the last several years.

Q: Got it. And then, in terms of some of your end markets, semiconductor growth on one of the slides looks pretty strong in the quarter and I know that obviously, semiconductors has been a pretty strong market for some time here, a lot of tailwinds pushing that particular market higher. But at the same time, everyone was aware of the semiconductor shortages that are out there and I'm kind of curious if your growth that you've experienced in that market is maybe been somewhat capped because of that, and if not, how should we kind of thinking about those impacts at the semiconductor market and how that relates to your growth?

Jugal Vijayvargiya - Chief Executive Officer, President & Director, Materion Corporation

Yeah, well, semiconductor has been a very good market for us for a number of quarters now. And to your point, there's definitely market tailwind. But I think at the same time when you look at our growth over the last several quarters, you'll see that our growth is substantially above general market growth for semiconductor and that's as a result of the great work the team's done on getting organic initiatives. We've talked a lot about our aluminum scandium targets, and they've been a really, really growth driver for us. We've also got, what we call, microelectronic packaging, which is basically packaging units where we put -- the customers, I should say, put semiconductor material and chips inside of it for reliability. That's also been a great growth avenue for us in terms of organic growth.

So, first of all, I think our growth is really built around a number of organic initiatives combined with the general tailwind of the market. With regard to I think where it's headed and kind of what's the situation with the backlog, maybe that's occurring, clearly, there's a shortage. We are supporting our customers to the best of our ability that we can, I mean, as we're getting the orders in. I would expect that this backlog will clear out maybe over the next year, some people are predicting maybe even a little bit more than a year. And then as it does, we expect to continue to support but we are running our facilities to support our customers in a full way. So, we continue to be excited about this market.

Q: Got it. And last question for me, on the automotive growth side, also a really strong number of labels 81%, year-over-year, can you kind of help us understand and I know there's leverage to the EV market -- can you help us understand some of the main drivers there? Is that kind of a function of just easier year-over-year comps versus the shutdowns? Are you taking market share in new applications? Just any color there and ranking of those drivers would be helpful?

Jugal Vijayvargiya - Chief Executive Officer, President & Director, Materion Corporation

Yeah, auto has been a great market for us and we've really been focused on auto the last several years. And I think the growth is -- it certainly the comps are helpful but when you look at Q3 last

year, there was already starting to be a little bit of a recovery, I think, and so I think our growth is coming from a number of different products, one, the general market growth that's happening. Clearly, we're having a lot of success on the EV side. As we indicated, we are doubling our sales for the EV specific applications for the second year in a row. We've got a lot of play that we do on the connector side. And as we know, electronics content in autos continues to increase, so that means connector usage continues to increase, and therefore our content continues to increase. So, we're really very fortunate, I think, to have materials that are used in the connector market.

We also have a very heavy weight towards our European and Asian OEMs. And European and Asian OEMs, I think, are doing a lot better, I would say in this situation than probably perhaps the North American OEMs. So we've got -- majority of our content is actually on the European and Asian OEM site and then general content that we keep driving across the board, I think with global platforms. So number of things that are contributing to our automotive sales, we're very excited about where automotive is headed for us; in particular, I think the EV content continues to be exciting for us and then I think the general electronic growth continues to be exciting for us.

Q: Got it. Thanks, guys. I really appreciate the time.

Jugal Vijayvargiya - Chief Executive Officer, President & Director, Materion Corporation

Thanks, Marco.

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

Thanks, Marco.

Operator

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

Q: Hi. Thanks. Good morning.

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

Hi, Phil.

Jugal Vijayvargiya - Chief Executive Officer, President & Director, Materion Corporation

Good morning, Phil.

Q: The energy sales really took off this quarter relative to the rate you've been on the last several quarters, I think, probably the highest level since mid-2019, late 2019. So what are you seeing there? How much is related to oil and gas and other things? Because I know you're not just oil and gas, you may be some color there because I know it's obviously helpful for your mix.

Jugal Vijayvargiya - Chief Executive Officer, President & Director, Materion Corporation

Right. Energy for us -- I mean, a couple of big areas for energy fill are oil and gas and then the other one is our smart glass applications. Oil and gas, as we indicated, is starting to show signs of recovery. Rig count is up, roughly about 550 rig count versus about 350 at the end of last year, so that's certainly helping and I think the recovery in oil and gas is a contributing factor. Smart glass is really another nice contributing factor for us with constructions, building constructions, especially commercial constructions up and remodeling up and so that's I think contributing as well. So it is a good mix for us both on the smart glass side and the oil and gas side.

Q: Thanks, Jugal. And then on the networking capital, it was a very large use of cash this quarter, particularly as it related to inventory and accounts receivable. I mean, was that related to inflation, was that related to you getting ahead of the clad ramp? I mean, maybe bring us through some of that. That was surprising in terms of the use to us.

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

Yeah, I'll take that one, Phil. So I think it's a bit of a mix, the AR is up with our sales being up, and there's the mix in there. The inventory piece, I think a Tale of Two Cities, it's somewhat the pricing. As you know, our inventory balance holds the full value of the inventory, including the pass-through metal and some of those precious metals are up substantially. And then we have – in some cases where we're carrying some extra inventory, given the supply chain issues that are prevalent, we want to make sure we're able to service our customers, so you're seeing our safety stocks go up a little bit, but it's really to support this great level of business that we've got going right now.

Q: Thank you. My last one, I missed the very, very, very beginning of the call, but anything you could provide us in terms of the ramp on the new clad facility, I know you mentioned, you had some startup costs this quarter, which are obviously expected but where are you there and are you poised to hit the ground running in 2022? Thanks.

Jugal Vijayvargiya - Chief Executive Officer, President & Director, Materion Corporation

Yeah, Phil, as we noted, I think in our prior calls as well that we were going to have startup costs a little bit in the first half of the year but ramping up in the in the third quarter and fourth quarter, and that's to be expected as we're getting this facility ready to be able to go into higher levels of production into '22. So I would say we're in -- we've got equipment installed, we're sort of in a commissioning trial phase. Right now we'll do that here in Q3 -- or we did that in Q3, we're doing that again here in Q4, as we're getting product build, it's going to be a lot of testing, testing on our side testing on the customer side and then our intent is to go ahead and start running the facility from a production level starting in the first half of next year. So I think the team is exactly right on track. It's in line with the schedule that we had developed with the customer and we're quite excited about that.

Q: Thanks, everybody.

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Jugal Vijayvargiya - Chief Executive Officer, President & Director, Materion Corporation

Okay. Thanks, Phil.

Operator

Our next question is from Marisa Hernandez with Sidoti. Please proceed with your question.

Q: Good morning, and congratulations on the results.

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

Thanks, Marisa.

Jugal Vijayvargiya - Chief Executive Officer, President & Director, Materion Corporation

Good morning, Marisa.

Q: So I wanted to ask about the Optics Balzers integration. How is that going in your view? You mentioned Shelley that it is project based, so quarter-to-quarter there are variations. How do you see it tracking versus your initial expectations in terms of potential for margin and additional sales?

Jugal Vijayvargiya - Chief Executive Officer, President & Director, Materion Corporation

Yeah, I think there's two things here, one is the integration and then the second part you talked about sort of the how the business in general runs with more of a project-based contracts that we have with our customers. So, I think the integration is going really well. We've put the two organizations together, we created a global organization led by Ian Tribick, and I think we've got a strong team of individuals that are focused on the operational side as well as the growth side. And as we indicated, when we did the acquisition a year ago, our main purpose for acquiring Optics Balzers was to create this global organization that can drive top line growth and we would expect to see synergies in the two to three to four year timeframe, and I think we're exactly on track of being able to do that. The teams are collectively looking at each end market and how each end market can be serviced with the global organization, so very excited about that. I know the team's actually got a get-together that they're doing here in December, to continue to further work and refine our strategies for that.

I think that the other part, which is related to just strictly to the business, so it's not an Optics Balzers issue, or let's say the legacy issue, it's just how that business runs. I mean, there is a lot of business that we have there that is a bit more project-based. So, you see that and historically, you've seen that in the margin profiles of that business, both the top line and the bottom line. So -- but overall, we're very pleased with how things are progressing and looking forward to some more good things from the team.

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Q: Thank you for that explanation. Now on the HCS, just a quick question on the accounting, can we assume that what you are guiding for depreciation for the full year, we strip out those two months and that's a good base number to use for 2022?

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

Yeah, Marisa. So that depreciation, we have a good handle on the purchase amortization is an estimate, as you might expect, we've got the work to do there on the opening balance sheet and the valuation, so we've made an estimate. This is the reason why we provided EPS impact for two months, both with and without amortization so you can understand the earnings power. And we'll work through the assignment of the purchase price over the next few months.

Q: Perfect, thank you.

Operator

Our next question comes from Phil Gibbs with KeyBanc Capital Markets. Please proceed with your question.

Q: Thanks. Kind of going off that question, I know you've got a couple months of HC in this fourth quarter, is there any implied EPS accretion from the business in the fourth quarter in your guidance or should we expect purchase price accounting impacts to impact that in Q4?

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

No, Phil, so what we're saying -- what we're estimating is that even with the purchase price amortization that it would be $0.05 accretive for the two months, and without the purchase price amortization, it would be about $0.13. So, we've got that work to do but we wanted to give you a feel for what the two-month impact would be in our guide.

Q: So when you actually report your numbers, a few months from now, is that purchase price accounting going to be included in that guidance range then?

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

It will. It will, yes.

Q: And how long should we expect those accounting impacts to last?

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

I'm not sure if I follow. You mean, how long will we amortize the intangible?

Q: Is that what the differences is, is it basically the non-cash amortization that's going to stick with you for a while.

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

Yeah. Yeah. Yep.

Q: Okay. So that's an ongoing then?

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

Yeah. Yep. As you know, Phil, many companies report EPS without purchase amortization. Companies that are acquisitive that's something we're taking a look at, so we wanted to show you what the EPS is without purchase amortization.

Q: No, that's helpful. Appreciate it. Thanks so much.

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

Sure.

Operator

Ladies and gentlemen, we have reached the end of the question-and-answer session and I would like to turn the call back over to John Zaranec for closing remarks.

John Zaranec - Vice President, Corporate Controller & Investor Relations, Materion Corporation

Thank you. This is John Zaranec and this concludes our third quarter of 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 216-383-4010. Thank you.

Operator

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

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