Materion Corporation
3Q 2022 Earnings Call

November 2, 2022



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Agenda

Introduction	John Zaranec – Chief Accounting Officer
Opening Remarks & Business Update	Jugal Vijayvargiya – President and Chief Executive Officer
Financial Review	Shelly Chadwick – Vice President and Chief Financial Officer
Q&A	Question and Answer Session

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Forward Looking Statements and Non-GAAP Financial Information

These slides contain (and the accompanying oral discussion will contain, where applicable) "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements involve known and unknown risks, uncertainties and other factors that could cause our actual results to differ materially from the results expressed or implied by these statements, including, but not limited to, our ability to achieve the strategic and other objectives related to the acquisition of HCS-Electronic Materials, including any expected synergies; our ability to successfully integrate the HCS-Electronic Materials business and other such acquisitions and achieve the expected results of the acquisition, the ultimate impact of the COVID-19 pandemic on our business, results of operations, financial condition, and liquidity; the global economy, including the impact of tariffs and trade agreements; the condition of the markets which we serve, whether defined geographically or by segment; changes in product mix and the financial condition of customers; our success in developing and introducing new products and new product ramp-up rates; our success in passing through the costs of raw materials to customers or otherwise mitigating fluctuating prices for those materials, including the impact of fluctuating prices on inventory values; our success in implementing our strategic plans and the timely and successful completion and start-up of any capital projects; other financial and economic factors, including the cost and availability of raw materials (both base and precious metals), physical inventory valuations, metal consignment fees, tax rates, exchange rates, interest rates, pension costs and required cash contributions and other employee benefit costs, energy costs, regulatory compliance costs, the cost and availability of insurance, credit availability, and the impact of the Company's stock price on the cost of incentive compensation plans; the uncertainties related to the impact of war, terrorist activities, and acts of God; changes in government regulatory requirements and the enactment of new legislation that impacts our obligations and operations; the conclusion of pending litigation matters in accordance with our expectation that there will be no material adverse effects; the disruptions on operations from, and other effects of, catastrophic and other extraordinary events including the COVID-19 pandemic; and other risk factors disclosed in periodic reports filed with the Securities and Exchange Commission. Consequently, these forward-looking statements should be regarded as the Company's current plans, estimates, and beliefs.

The Company does not undertake and specifically declines any obligation to update or publicly release the results of any revisions to these forward-looking statements that may be made to reflect any future events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

To supplement our consolidated financial statements presented in accordance with GAAP, the Company considers certain financial measures that are not prepared in accordance with GAAP, including value-added sales (VA sales), adjusted earnings before interest and taxes depreciation and amortization (EBITDA), adjusted net income, adjusted earnings per diluted share and net debt (cash). The company uses these non-GAAP financial measures, in addition to GAAP financial measures, to evaluate our operating and financial performance and to compare such performance to that of prior periods and to the performance of our competitors. Also, the Company uses these non-GAAP financial measures in making operational and financial decisions and in establishing operational goals. The Company also believes providing these non-GAAP financial measures to investors, as a supplement to GAAP financial measures, helps investors evaluate our operating and financial performance and trends in our business, consistent with how management evaluates such performance and trends. The company also believes these non-GAAP financial measures may be useful to investors in comparing its performance to the performance of other companies, although its non-GAAP financial measures are specific to the company and the non-GAAP financial measures of other companies may not be calculated in the same manner.

It is not possible for the Company to identify the amount or significance of future adjustments associated with potential insurance and litigation claims, legacy environmental costs, acquisition and integration costs, certain income tax items, or other non-routine costs that the Company adjusts in the presentation of adjusted earnings guidance. These items are dependent on future events that are not reasonably estimable at this time. Accordingly, the Company is unable to reconcile without unreasonable effort the forecasted range of adjusted earnings guidance for the full year to a comparable GAAP range. However, items excluded from the Company's adjusted earnings guidance include the historical adjustments noted in slides 19 through 24 in the appendix.

For more information on Non-GAAP measures, please refer to the Appendix.

Opening Remarks & Business Update

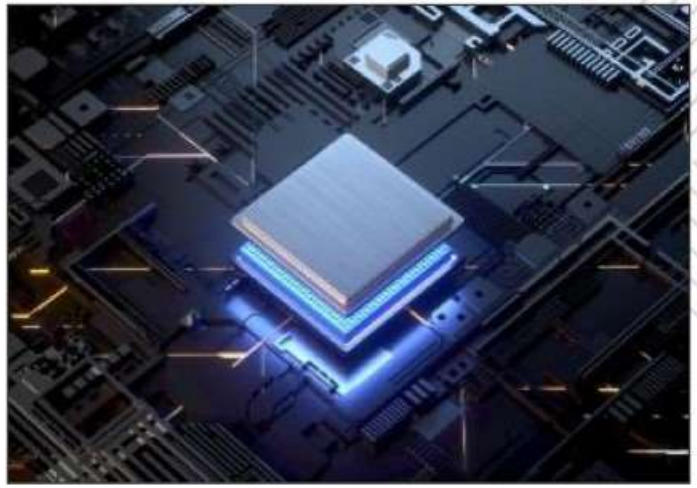
Jugal Vijayvargiya

President and Chief Executive Officer

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Q3 2022 Financial Highlights

Record Value-Added Sales, Adjusted EBITDA and EPS





Delivered record value-added (VA) sales of $290.4 million, up 35% year-over-year

- Organic* VA up 15%, with meaningful contribution from outgrowth initiatives, coupled with strong end market demand led by semiconductor, industrial, aerospace and energy
- HCS-Electronic Materials (HCS) VA sales exceeded expectations with strong sequential growth
- Precision Clad Strip VA contributed as planned with new plant ramping up
- Currency (~3%) headwind in the quarter

Achieved record adjusted EBITDA of $48.8 million or 16.8% of VA

- All time high VA sales and favorable price/cost delivered strong results
- Incremental EBITDA impacted by short term tantalum raw material headwinds, semiconductor product mix and lower yields at a Performance Materials facility

Record quarterly adjusted EPS of $1.31, up sequentially and year on year

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** Organic results exclude the impact of both acquisitions and currency*
See appendix for reconciliations of value-added sales, adjusted EBITDA, adjusted EBITDA margin, adjusted EPS and EPS with acquisition amortization to their most comparable GAAP financial measures. Certain data presented above has been rounded for presentation purposes.

Accelerating Organic Outgrowth with Key Investments

Phase 1 Precision Clad Strip	Phase 2 Precision Clad Strip	Next Generation Battery Tech	Clean Energy Partnership	Newton Investment
Q1 2020* ~$100M Investment	Q1 2022* ~$60M Investment	Q2 2022* ~$7M Investment	Q2 2022* ~$2M Investment	Q4 2022* ~$20M Investment
Precision Clad Strip Project achieved 'Qualified Status'; ramp up proceeding	Significant phase two expansion of Precision Clad Strip capacity planned for 2024 start up	Partnership with leading battery manufacturer for development of NextGen battery solutions	Jointly commissioned a Molten Salt Purification Plant with Kairos Power for use in clean energy production	Expand capacity and capability to deliver higher output in support of increasing demand for our tantalum portfolio
				

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* Announcement timing

End Market Performance

Q3 2022				
Market	**VA Sales**	**vs. Q3 2021**	**Q3 Comments**	**Short Term Outlook**
Semiconductor	$94.8	↑ 85%	▪ Organic growth of 7% driven by increased content and new applications in logic, communications and other advanced chips	++
Industrial	$52.6	↑ 25%	▪ Non-residential construction, e-commerce warehouses and other industrial manufacturing demand ▪ 11% organic growth	++
Aerospace & Defense	$28.4	↑ 18%	▪ Aerospace continuing to strengthen with sixth consecutive quarter of growth; driven by increased content and build rate ▪ Defense flat due to order timing	+++ / +
Energy	$22.1	↑ 34%	▪ Seventh quarter of consecutive growth in Oil & Gas as oil field tool demand remains strong ▪ 27% organic growth	++
Automotive	$20.7	↓ -13%	▪ Sales to ICE vehicles down from prior year peak, offset by strong EV demand ▪ PO down due to customer timing push out	+
Consumer Electronics	$14.7	↓ -9%	▪ Up 3% excluding discontinued consumer electronics application in PO ▪ Inflation impacting device demand, slightly offset by new business wins	o
Telecom & Data Center	$12.4	↑ 6%	▪ Strong connector demand driven by increasing 5G applications and undersea communication cable demand	+

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Key Takeaways

Achieved another quarter of record results

- Delivered record VA sales for the seventh consecutive quarter
- Record adjusted EBITDA of $48.8M, margin of ~17%, approaching mid-term target of 20%
- Achieved all-time-record quarterly adjusted EPS

Delivering on key strategic growth initiatives while building pipeline for the future

- Organic initiatives consistently delivering above market growth
- Precision Clad Strip plant is qualified and contributing, expect further efficiencies in Q4
- Driving 20% output increase at HCS Electronic Materials; investing $20M for additional capacity and capabilities
- Multiple new customer projects under development setting the stage for continued strong end market outgrowth

Expect to finish 2022 strong, with another record quarter in Q4

- Expect to deliver ~30% adjusted EPS growth in 2022, despite macro uncertainty
- Expect to have sequential EPS improvement in Q4
- Headwinds incurred in Q3 being addressed to minimize impact going forward

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Financial Review

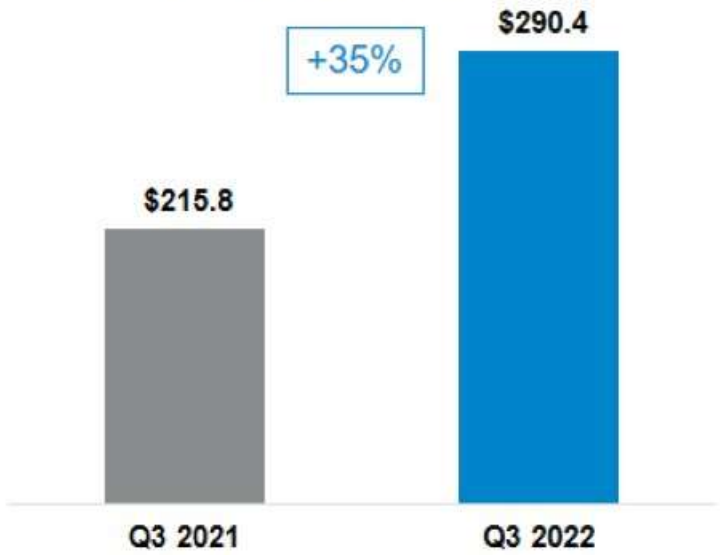
Shelly Chadwick

Vice President and Chief Financial Officer

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Q3 2022 Operating Performance

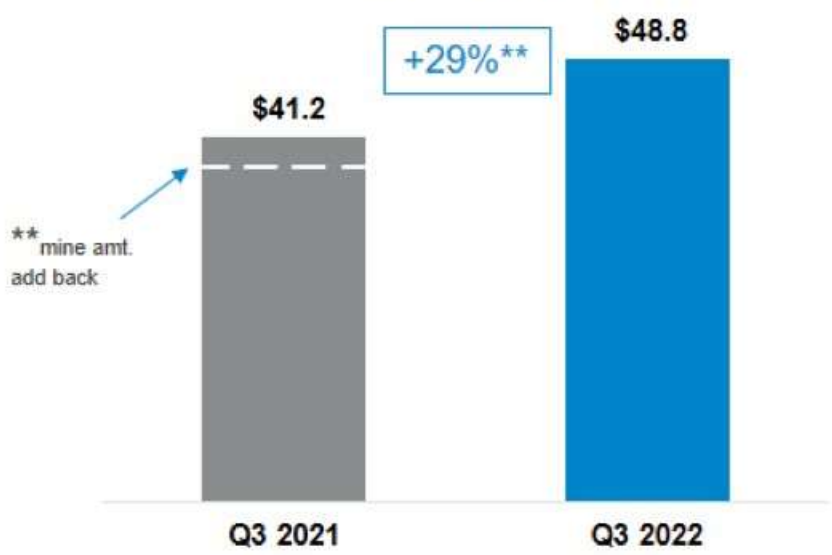
Value-added Sales ($M)



Value-added sales were $290.4 million, up 35% from prior year

- Strong demand across key end markets led by semiconductor, industrial, aerospace and energy
- VA up ~15% organically*, with significant above market growth
- Meaningful contribution from HCS

Adj. EBITDA ($M)



Adjusted EBITDA was $48.8 million; margin of 16.8%

- Higher volume and favorable price/cost offsetting inflation
- YTD margin at ~17% approaching mid term target of 20%

Adj. EPS



Adjusted EPS of $1.31 versus $1.15 in the prior year period

- Delivered record quarter despite short-term challenges
- Incurred ~$0.20 cents of additional interest expense year on year

** Organic growth excludes the impact of both acquisitions and currency*

*** Adjusted EBITDA growth shown with comparable mine amortization add back*

See appendix for reconciliations of value-added sales, adjusted EBITDA, adjusted EBITDA margin, adjusted EPS and EPS with acquisition amortization to their most comparable GAAP financial measures. Certain data presented above has been rounded for presentation purposes.

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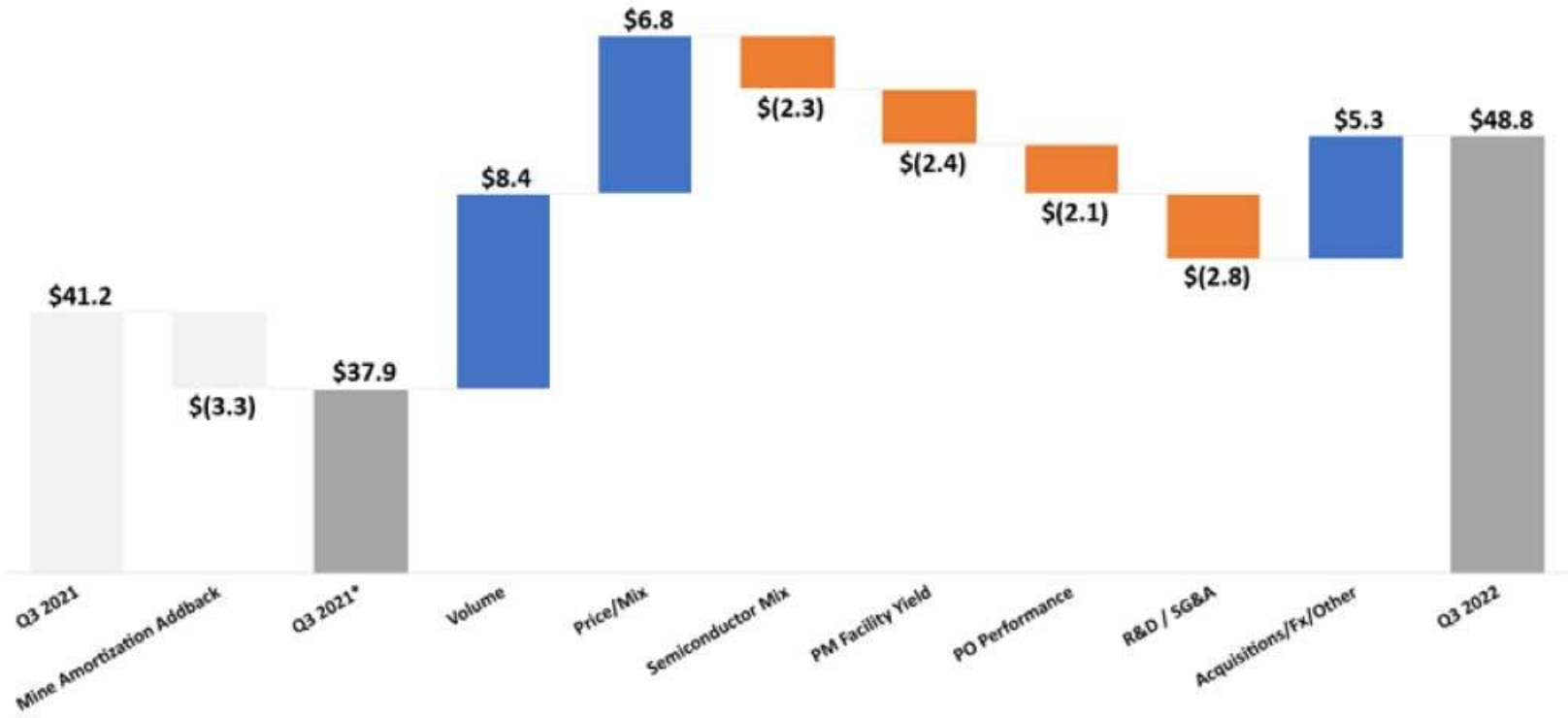
Q3 2022 Financial Comparison

Record adjusted EBITDA of $48.8 million

- Growth driven by strong volumes, meaningful price/mix and HCS Electronic Materials acquisition

Partially offset by

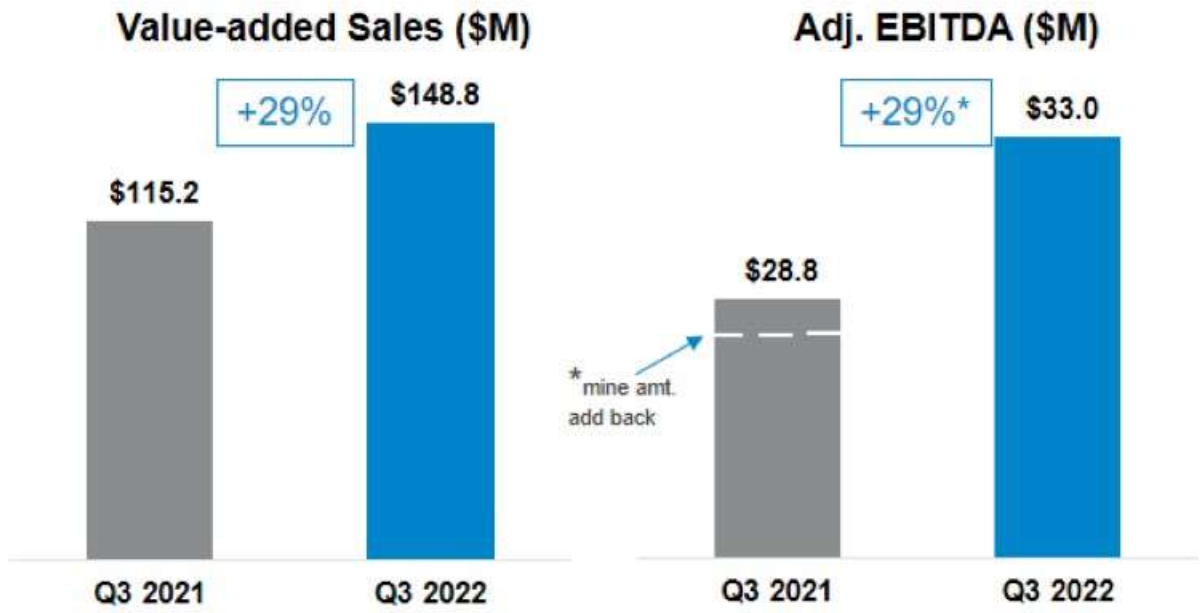
- Unfavorable semiconductor mix due to lower precious metal target demand
- Yield challenges at a large Performance Materials facility
- Delayed Precision Optics recovery
- R&D and SG&A investments continuing to support organic growth pipeline



** Represents comparable period excluding the mine amortization add back*
See appendix for reconciliations of value-added sales, adjusted EBITDA, adjusted EBITDA margin, adjusted EPS and EPS with acquisition amortization to their most comparable GAAP financial measures. Certain data presented above has been rounded for presentation purposes.

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Performance Materials Segment



Q3 Performance by End Market

- ↑ Industrial
- ↑ Aerospace & Defense
- ↓ Automotive
- ↑ Energy
- ↑ Telecom & Data Center
- ↓ Consumer Electronics

Record value-added sales of $148.8 million, up 29% from prior year

- Strong performance in the industrial, energy and aerospace end markets
- Precision clad strip opportunity contributed ~$20M in the quarter

Record adjusted EBITDA of $33.0 million, or 22.2% of VA sales

- Increased volume, positive price/cost, offset by yield challenges at a manufacturing facility
- Sequential margin expansion of 190 bps

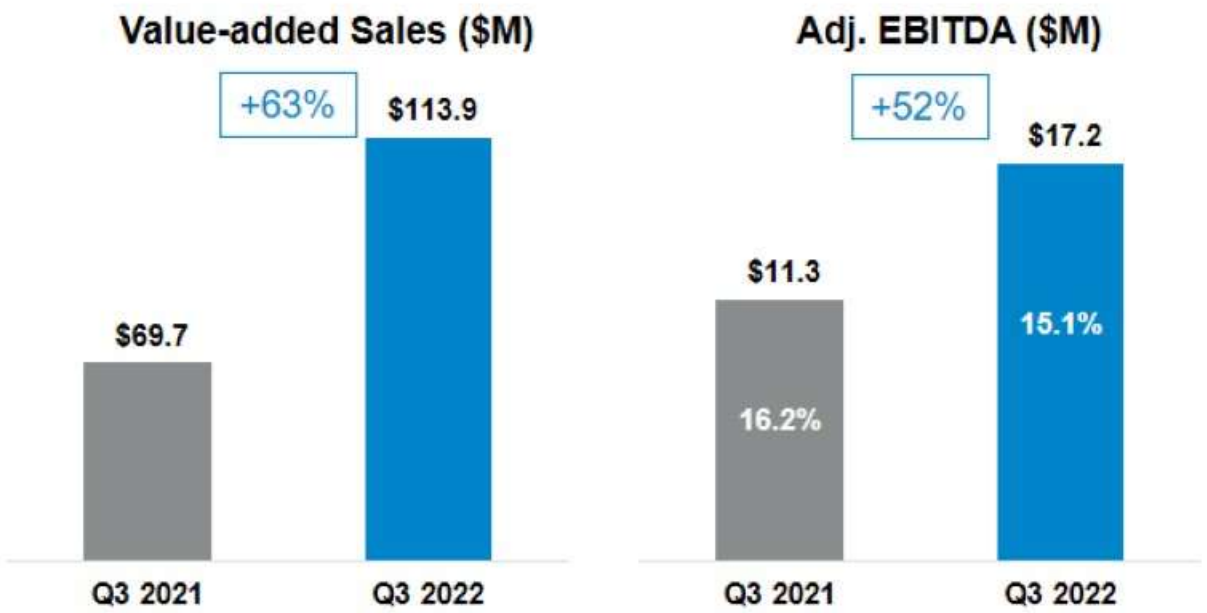
Q4 Outlook:

- Order book remains strong; expect another quarter of above market organic growth
- Precision Clad Strip plant contributing, expect further efficiencies in Q4

** Adjusted EBITDA growth shown with comparable mine amortization add back*
See appendix for reconciliations of value-added sales, adjusted EBITDA, adjusted EBITDA margin, adjusted EPS and EPS with acquisition amortization to their most comparable GAAP financial measures. Certain data presented above has been rounded for presentation purposes.

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Electronic Materials Segment



Q3 Performance by End Market

- ↑ Semiconductor
- ↑ Industrial
- ↓ Energy

Value-added sales of $113.9 million, up 63% from prior year

- HCS-Electronic Materials contributing meaningful VA growth
- Organic growth of 10%* driven by semiconductor and industrial

Adjusted EBITDA of $17.2 million, or 15.1% of VA sales

- Increased due to organic volume and favorable price/cost, offset by unfavorable semiconductor mix
- Favorable contribution from HCS, despite short term tantalum raw material headwinds

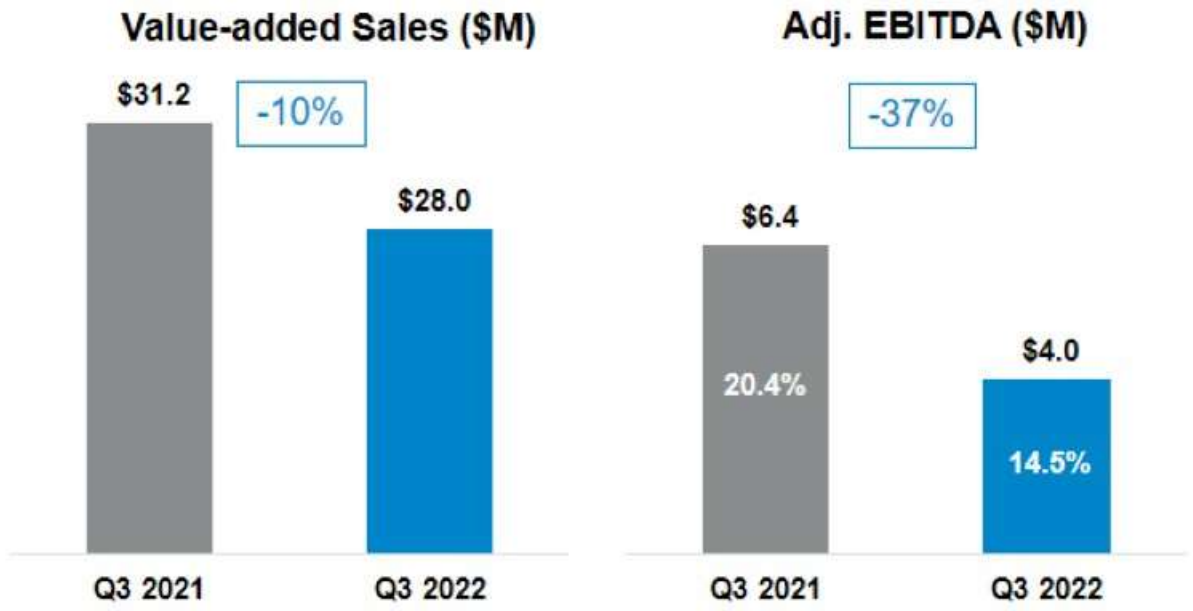
Q4 Outlook:

- Diversification within semiconductor and organic initiatives on course to deliver above market growth
- Continued favorable contribution from HCS with short term tantalum headwinds

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** Organic growth excludes the impact of both acquisitions and currency*
See appendix for reconciliations of value-added sales, adjusted EBITDA, adjusted EBITDA margin, adjusted EPS and EPS with acquisition amortization to their most comparable GAAP financial measures. Certain data presented above has been rounded for presentation purposes.

Precision Optics Segment



Q3 Performance by End Market

- ↑ Medical
- ↑ Semiconductor
- ↓ Aerospace & Defense
- ↓ Consumer Electronics

Value-added sales of $28.0 million

- Decrease mainly driven by discontinued consumer electronics application and defense project timing
- VA negatively impacted by $2M from currency headwinds
- Recovery delayed due to order timing

Adjusted EBITDA of $4.0 million, or 14.5% of VA sales

- Up 11% sequentially with margin expansion of 230 bps
- Unfavorable performance due to discontinued consumer electronics application and delayed recovery of top line growth

Q4 Outlook:

- Sequential improvement expected supported by market recovery and growth in defense and space

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See appendix for reconciliations of value-added sales, adjusted EBITDA, adjusted EBITDA margin, adjusted EPS and EPS with acquisition amortization to their most comparable GAAP financial measures. Certain data presented above has been rounded for presentation purposes.

Cash, Debt and Liquidity

($M)	Q3 2021	Q3 2022
Short-term Debt	$0.5	$19.7
Long-term Debt	$79.0	$474.3
Total Debt	**$79.5**	**$494.0**
Cash & Cash Equivalents	$18.0	$20.7
Net Debt (Cash)	**$61.5**	**$473.3**
TTM Adjusted EBITDA	$132.9	$180.2
Net Debt (Cash) / TTM Adj. EBITDA	0.5x	2.6x

Leverage remains within target range of 1.5x – 3x

Approximately $127 million available on existing credit facility

- Adequate liquidity remains to support growth initiatives

No share buyback activity in the quarter

- Board authorization in place for up to $50M worth of shares with $8.3M remaining

Strong Cash Flow expected through remainder of 2022

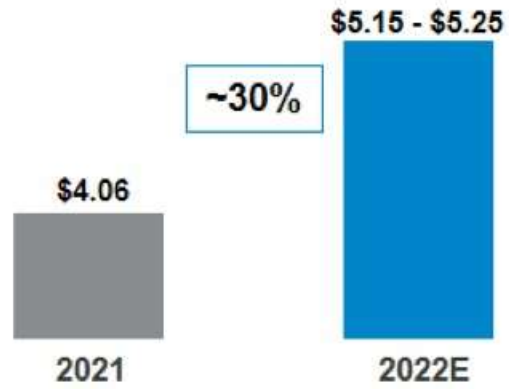
- Expect leverage ~2.3x by year-end

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Full Year 2022 Guidance

2022 Guidance

- Updated annual adjusted EPS of **$5.15 - $5.25**, an increase of ~30% from 2021, at the midpoint



2022 Modeling Assumptions			
Capital Expenditures	$90M	Interest Expense	$21.5M
HCS-Electronic Materials	$20M	Effective Tax Rate	18-19%
Tailings Pond	$10M	Mine Development Costs	$1M
Precision Clad Strip Plant - Initial	$5M	Depreciation and Amortization	$53.5M
Precision Clad Strip Plant - New Award	$27M	Acquisition Amortization	$12M
Normal Segment Capex	$28M		

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Note: This guidance was provided on November 2nd, 2022 and has not been confirmed or updated. The Company disclaims any obligation to do so based on any subsequent event or any other reason. In addition, as discussed on slide 3, it is not possible for the Company to forecast future adjustments to GAAP earnings.

Invest in Materion as We Advance Our Strategy



Becoming a global leader in high-performing advanced materials serving diverse and attractive markets well aligned with megatrends



Building robust pipeline with investments in R&D as we focus on developing innovative solutions for our customers



Leveraging strong cash flow and deploying a disciplined, strategic approach toward profitable growth opportunities, both organic and inorganic



Energized management team laser focused on execution and increasing value for all stakeholders

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Appendix

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Reconciliation for Value-added Sales

($ in millions)	Q3 2022	Q3 2021
Net Sales		
Performance Materials	$ 169.4	$ 136.1
Electronic Materials	230.8	220.7
Precision Optics	28.0	31.2
Other	—	—
Total	$ 428.2	$ 388.0
Less: Pass-through Metal Costs		
Performance Materials	$ 20.6	$ 20.9
Electronic Materials	116.9	151.0
Precision Optics	—	—
Other	0.3	0.3
Total	$ 137.8	$ 172.2
Value-added Sales		
Performance Materials	$ 148.8	$ 115.2
Electronic Materials	113.9	69.7
Precision Optics	28.0	31.2
Other	(0.3)	(0.3)
Total	$ 290.4	$ 215.8

The cost of gold, silver, platinum, palladium, copper, ruthenium, iridium, rhodium, rhenium, and osmium is passed through to customers and, therefore, the trends and comparisons of net sales are affected by movements in the market price of these metals. The use of value-added sales allows management to assess the impact of differences in net sales and analyze the resulting profitability without the distortion of metal pricing movements, which the Company believes would be useful information for investors.

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Reconciliation for Non-GAAP Measures

($ in millions)	Q3 2022	Q3 2021
Operating Profit (Loss)		
Performance Materials	$ 22.9	$ 20.9
Electronic Materials	12.8	9.3
Precision Optics	0.8	3.3
Other	(7.4)	(12.3)
Total	$ 29.1	$ 21.2
Non-Operating (Income)/Expense		
Performance Materials	$ 0.1	$ 0.2
Electronic Materials	—	0.1
Precision Optics	(0.2)	(0.3)
Other	(1.1)	(1.2)
Total	$ (1.2)	$ (1.2)
Depreciation, Depletion, and Amortization		
Performance Materials	$ 6.1	$ 8.1
Electronic Materials	4.0	2.1
Precision Optics	2.6	2.7
Other	0.4	0.5
Total	$ 13.1	$ 13.4
Segment EBITDA		
Performance Materials	$ 28.9	$ 28.8
Electronic Materials	16.8	11.3
Precision Optics	3.6	6.3
Other	(5.9)	(10.6)
Total	$ 43.4	$ 35.8

We have adjusted the results for certain special items such as restructuring and cost reduction (i.e., severance), additional start up resources and scrap, merger and acquisition costs and certain discrete income tax items from the applicable GAAP financial measure. Management reviews the results of operations without the impact of these items to assess profitability from ongoing activities and believes this will assist investors in analyzing our financial results.

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Reconciliation for Non-GAAP Measures (Cont.)

($ in millions)	Q3 2022	Q3 2021
Special Items		
Performance Materials	$ 4.1	$ —
Electronic Materials	0.4	—
Precision Optics	0.4	0.1
Other	0.5	5.3
Total	$ 5.4	$ 5.4
Adjusted EBITDA Excluding Special Items		
Performance Materials	$ 33.0	$ 28.8
Electronic Materials	17.2	11.3
Precision Optics	4.0	6.4
Other	(5.4)	(5.3)
Total	$ 48.8	$ 41.2

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Reconciliation for Non-GAAP Measures (Cont.)

($ in millions)	Q3 2022	Q3 2021	Q3 2022 TTM	Q3 2021 TTM
GAAP as Reported				
Net income	$ 20.0	$ 18.1	$ 76.9	$ 60.8
Income tax expense (benefit)	4.4	3.4	7.2	8.9
Interest expense	5.9	0.9	16.7	3.5
Depreciation, depletion, and amortization	13.1	13.4	50.8	42.9
Consolidated EBITDA	**$ 43.4**	**$ 35.8**	**$ 151.8**	**$ 116.1**
Special Items				
Restructuring and cost reduction	$ 0.4	$ —	$ 1.5	$ 4.9
Merger and acquisition costs	0.9	5.4	22.8	6.5
Additional start up resources and scrap	4.1	—	4.1	—
Impairment charges	—	—	—	(0.2)
Mine development costs	—	—	—	5.6
Forfeiture of non-cash stock-based compensation	—	—	—	(0.6)
COVID-19 related costs	—	—	—	0.4
Legacy legal & environmental costs	—	—	—	0.2
Total Special Items	5.4	5.4	28.4	16.8
Adjusted EBITDA	**$ 48.8**	**$ 41.2**	**$ 180.2**	**$ 132.9**

We have adjusted the results for certain special items such as non-cash impairment charges, non-cash inventory adjustments, cost reduction initiatives (i.e., severance), additional start up resources and scrap, COVID-19 related costs, merger and acquisition costs, mine development costs, forfeiture of non-cash stock-based compensation, legacy legal & environmental costs and certain discrete income tax items from the applicable GAAP financial measure. Management reviews the results of operations without the impact of these items to assess profitability from ongoing activities and believes this will assist investors in analyzing our financial results.

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Reconciliation for Non-GAAP Measures (Cont.)

Performance Materials

(Millions)	Third Quarter Ended September 30, 2022	% of VA	October 1, 2021	% of VA
Net sales	$ 169.4		$ 136.1	
Pass-through metal cost	20.6		20.9	
Value-added sales	$ 148.8		$ 115.2	
EBITDA	$ 28.9	19.4 %	$ 28.8	25.0 %
Additional start up resources and scrap	4.1	2.8 %	—	— %
Merger and acquisition costs	—	— %	—	— %
Adjusted EBITDA	$ 33.0	22.2 %	$ 28.8	25.0 %

Precision Optics

(Millions)	Third Quarter Ended September 30, 2022	% of VA	October 1, 2021	% of VA
Net sales	$ 28.0		$ 31.2	
Pass-through metal cost	—		—	
Value-added sales	$ 28.0		$ 31.2	
EBITDA	$ 3.6	12.9 %	$ 6.3	20.1 %
Restructuring and cost reduction	0.4	1.6 %	—	— %
Merger and acquisition costs	—	— %	0.1	0.3 %
Adjusted EBITDA	$ 4.0	14.5 %	$ 6.4	20.4 %

Electronic Materials

(Millions)	Third Quarter Ended September 30, 2022	% of VA	October 1, 2021	% of VA
Net sales	$ 230.8		$ 220.7	
Pass-through metal cost	116.9		151.0	
Value-added sales	$ 113.9		$ 69.7	
EBITDA	$ 16.8	14.7 %	$ 11.3	16.2 %
Restructuring and cost reduction	—	— %	—	— %
Merger and acquisition costs	0.4	0.4 %	—	— %
Adjusted EBITDA	$ 17.2	15.1 %	$ 11.3	16.2 %

Other

(Millions)	Third Quarter Ended September 30, 2022	% of VA	October 1, 2021	% of VA
EBITDA	$ (5.9)		$ (10.6)	
Restructuring and cost reduction	—		—	
Merger and acquisition costs	0.5		5.3	
Adjusted EBITDA	$ (5.4)		$ (5.3)	

We have adjusted the results for certain special items such as restructuring and cost reduction (i.e., severance), additional start up resources and scrap, merger and acquisition costs and certain discrete income tax items from the applicable GAAP financial measure. Management reviews the results of operations without the impact of these items to assess profitability from ongoing activities and believes this will assist investors in analyzing our financial results.

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Reconciliation for Non-GAAP Measures (Cont.)

(Millions)	Third Quarter Ended September 30, 2022	Diluted EPS	October 1, 2021	Diluted EPS
Net income and EPS	$ 20.0	$ 0.96	$ 18.2	$ 0.88
Special items				
Restructuring and cost reduction	0.4		—	
Additional start up resources and scrap	4.1		—	
Merger and acquisition costs	0.9		5.4	
Provision for income taxes[(1)]	(0.5)		(0.9)	
Total special items	4.9	0.23	4.5	0.22
Adjusted net income and adjusted EPS	$ 24.9	$ 1.19	$ 22.7	$ 1.10
Acquisition amortization (net of tax)	2.4	0.12	1.0	0.05
Adjusted net income and adjusted EPS excl. amortization	$ 27.3	$ 1.31	$ 23.7	$ 1.15

We have adjusted the results for certain special items such as restructuring and cost reduction (i.e., severance), additional start up resources and scrap, merger and acquisition costs and certain discrete income tax items from the applicable GAAP financial measure. Management reviews the results of operations without the impact of these items to assess profitability from ongoing activities and believes this will assist investors in analyzing our financial results.

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