# Materion Corporation
# 1Q 2023 Earnings Call

*May 3, 2023*



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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 as a result of a variety of factors. These factors include, in addition to those mentioned elsewhere herein: the global economy, including inflationary pressures, potential future recessionary conditions and the impact of tariffs and trade agreements; the impact of any U.S. Federal Government shutdowns or sequestrations; 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 identifying acquisition candidates and in acquiring and integrating such businesses; the impact of the results of acquisitions on our ability to fully achieve the strategic and financial objectives related to these acquisitions; our success in implementing our strategic plans and the timely and successful start-up and completion 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 in operations from, and other effects of, catastrophic and other extraordinary events including the COVID-19 pandemic and the conflict between Russia and Ukraine; realization of expected financial benefits expected from the Inflation Reduction Act of 2022; 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 18 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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# Q1 2023 Highlights

## Record 1st Quarter Value-Added Sales, Adjusted EBITDA and EPS

**Delivered value-added (VA) sales of $298.6 million, up 15% year-over-year**

- 9th straight quarter of double-digit year over year VA sales growth
- Strong market outgrowth in aerospace, automotive and energy combined with meaningful contribution from organic initiatives including precision clad strip

**Achieved adjusted EBITDA of $53.4 million or 17.9% of VA, up 20% year-over-year**

- Record 1st quarter EBITDA margin driven by strong top line growth
- 70 bps of margin expansion, nearing mid-term target

**Adjusted EPS of $1.34, up 12% year over year**

**Awarded a $12 million second order to supply critical materials for space propulsion systems, for a total value of $22 million this year**

**Reached a significant milestone with Kairos Power, completing first shipment of Flibe as part of our next-gen clean energy partnership**





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

# End Market Performance

| Q1 2023 | | | |
|---|---|---|---|
| **Market** | **VA Sales** | **vs. Q1 2022** | **Q1 Comments** |
| **Semiconductor** | $85.5 | 3% | ▪ Led by increased tantalum shipments, partially offset by softer precious metal target sales |
| **Industrial** | $51.5 | 0% | ▪ Continued strength in non-residential construction, offset by softness in the general industrial market |
| **Aerospace & Defense** | $33.1 | 18% | ▪ Eighth consecutive quarter of growth in Aerospace led by increased content and build rate<br>▪ Content per plane up 25% from pre-pandemic levels<br>▪ Defense up slightly with order timing |
| **Automotive** | $23.4 | 23% | ▪ Continued outgrowth for the EV market with highest level of quarterly sales |
| **Energy** | $20.7 | 11% | ▪ Oil field tool demand remains robust<br>▪ Content per oil rig up 20% from pre-pandemic levels |
| **Consumer Electronics** | $11.1 | -30% | ▪ Smart phone market down 20% year over year<br>▪ Discontinued product application in Optics and general market softness |
| **Telecom & Data Center** | $14.2 | 14% | ▪ Strong connector demand driven by increasing 5G applications and undersea cable market |

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# Key Takeaways

## Achieved another quarter of record results

- Record first quarter VA Sales, adjusted EBITDA, EBITDA % and EPS
- Tenth consecutive quarter of year-over-year growth in organic VA sales, adjusted EBITDA and EPS
  - Over that time period, more than doubled quarterly run rate for organic VA sales, adjusted EBITDA and EPS

## Delivering on key strategic growth initiatives

- Outgrowth initiatives continuing to drive above market performance
- Precision Clad Strip opportunity contributing meaningfully
- New customer commitments support continued organic outgrowth

## Outlook for 2023

- Raising full year guidance despite continued macroeconomic pressures
- Targeted cost reduction actions in support of short-term softness in certain markets
- Capital investments remain on track to meaningfully expand capacity for growth opportunities

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# Financial Review

Shelly Chadwick

Vice President and Chief Financial Officer


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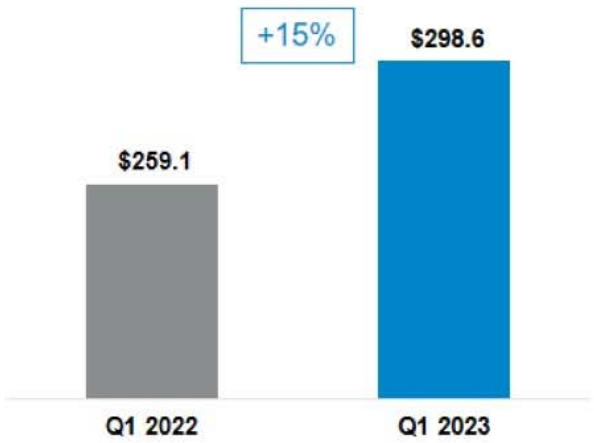
# Q1 2023 Operating Performance

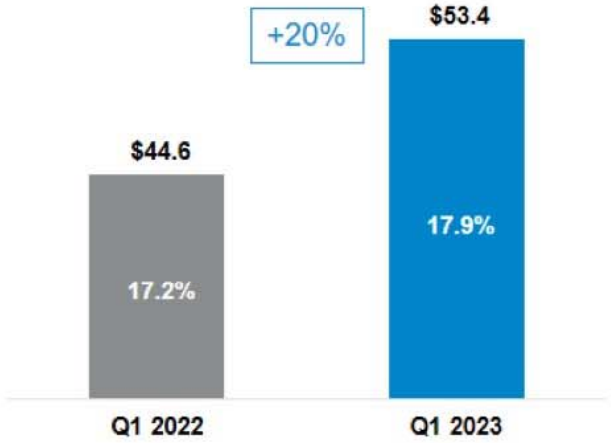
**Value-added Sales ($M)**




**Value-added sales were $298.6 million, up 15% from prior year**

- Strong demand across key end markets led by aerospace, automotive and energy
- Organic initiatives driving significant market outgrowth

**Adj. EBITDA ($M)**




**Adjusted EBITDA was $53.4 million, margin of 17.9%, up 70 bps from prior year**

- Driven by strong top line growth
- Continued progress toward mid-term margin target

**Adj. EPS**




**Adjusted EPS of $1.34, up 12% from prior year**

- Interest expense headwind of $.15/share

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

# Q1 2023 Financial Comparison

**Adjusted EBITDA of $53.4 million, or 17.9% of VA Sales**

- Increase driven by strong top line growth
- Unfavorable mix due to semiconductor softening in precious metal targets and hydroxide timing
- Strong operational performance in PM, offset by cost inefficiencies within EM
- 70 bps margin expansion




*Performance includes the Q1 '23 impact of the inflation act production credit.
See appendix for reconciliations of value-added sales, adjusted EBITDA, adjusted EBITDA margin and adjusted 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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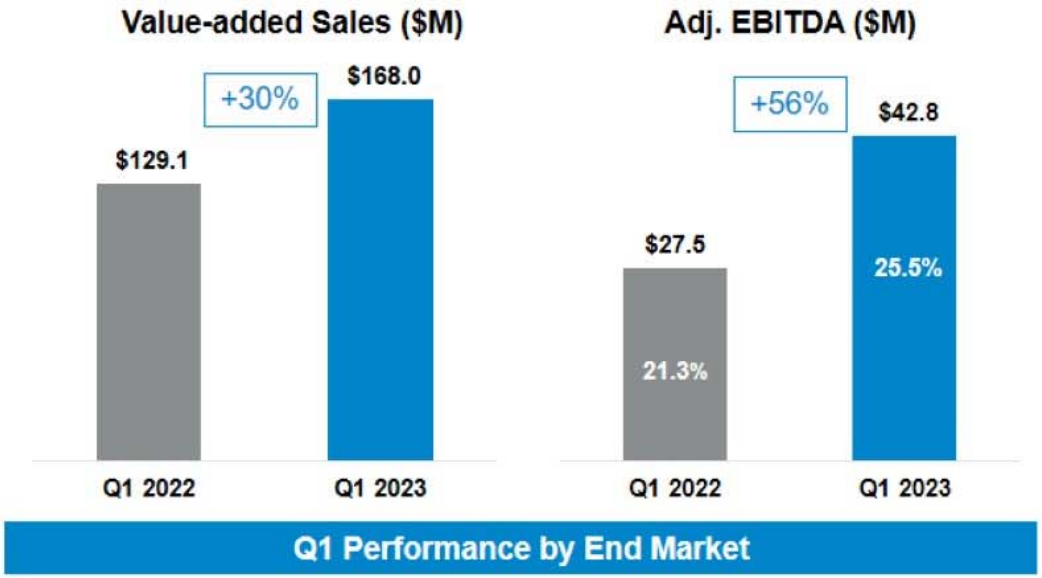
# Performance Materials Segment




**Q1 Performance by End Market**

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

**Value-added sales of $168.0 million, up 30% from prior year**

- Strong performance in the aerospace, automotive and energy end markets
- Continued contribution from precision clad strip

**Adjusted EBITDA of $42.8 million, up 56% from prior year**

- Record 25.5% EBITDA margin, up 420 bps from prior year
- Driven by higher volume and strong operational performance
- First quarter of estimated production credit from inflation reduction act

**2023 Outlook:**

- Continued outgrowth expected led by aerospace, automotive and energy
- Slowing industrial markets and continued softness in consumer electronics

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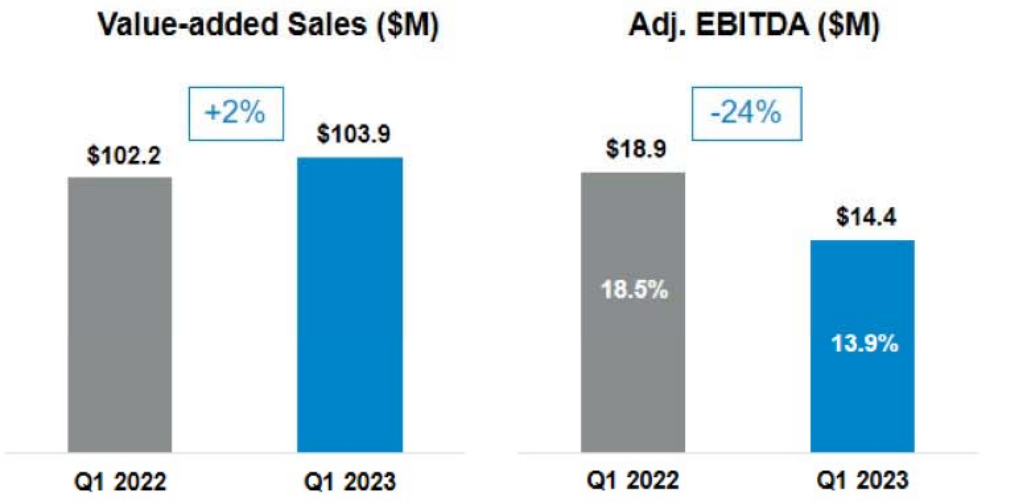
*See appendix for reconciliations of value-added sales, adjusted EBITDA, adjusted EBITDA margin and adjusted EPS with acquisition amortization to their most comparable GAAP financial measures. Certain data presented above has been rounded for presentation purposes.*

# Electronic Materials Segment




**Q1 Performance by End Market**

- Semiconductor
- Industrial
- Energy
- Automotive

**Value-added sales of $103.9 million, up 2% from prior year**

- Growth from tantalum shipments, offset by softening of precious metal sales
- Sales deceleration exiting the quarter

**Adjusted EBITDA of $14.4 million**

- EBITDA decline due to expected tantalum cost headwinds and unfavorable mix
- Lower production levels late in the quarter resulted in manufacturing cost inefficiencies

**2023 Outlook:**

- Sales deceleration expected to continue in the second quarter; expecting order pick up in 2H 2023
- Addressing lower sales levels with targeted cost reduction actions

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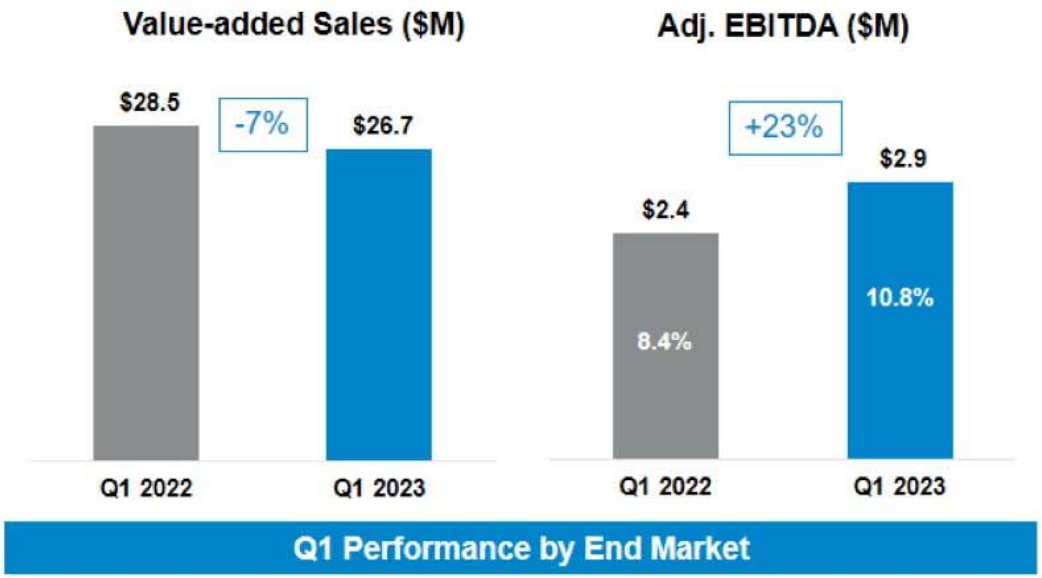
*See appendix for reconciliations of value-added sales, adjusted EBITDA, adjusted EBITDA margin and adjusted EPS with acquisition amortization to their most comparable GAAP financial measures. Certain data presented above has been rounded for presentation purposes.*

# Precision Optics Segment




**Q1 Performance by End Market**

- Medical
- Industrial
- Aerospace & Defense
- Consumer Electronics
- Automotive

**Value-added sales of $26.7 million**

- Decrease mainly driven by discontinued product application and softening in consumer electronics market
- Currency negatively impacted VA by $0.5M

**Adjusted EBITDA of $2.9 million, or 10.8% of VA sales**

- Targeted cost reduction actions and spend control resulted in 240 bps of margin expansion

**2023 Outlook:**

- Order rate improvement expected in defense, space and automotive
- Targeted cost reduction actions will continue

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*See appendix for reconciliations of value-added sales, adjusted EBITDA, adjusted EBITDA margin and adjusted 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) | Q1 2022 | Q1 2023 |
|---|---|---|
| Short-term Debt | $15.4 | $27.7 |
| Long-term Debt | $479.8 | $405.5 |
| **Total Debt** | **$495.2** | **$433.2** |
| Cash & Cash Equivalents | $20.2 | $15.2 |
| **Net Debt (Cash)** | **$475.0** | **$418.0** |
| TTM Adjusted EBITDA | $158.2 | $204.8 |
| Net Debt (Cash) / TTM Adj. EBITDA | 3.0x | 2.0x |

**Leverage at midpoint of target range of 1.5x – 3x**

**Free Cash Flow improved ~$40M from Q1 '22**

**Approximately $187 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

**Will continue to balance growth investment and debt paydown throughout remainder of year**

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# Full Year 2023 Guidance

**2023 Guidance**

- Raising full year adjusted EPS to **$5.60-$6.00**, an increase of ~10% from 2022 at the midpoint




| 2023 Modeling Assumptions | | | |
|---|---|---|---|
| Capital Expenditures | $95M | Interest Expense | $30M |
| HCS-Electronic Materials | $11M | Effective Tax Rate | 18-19% |
| Tailings Pond | $10M | Mine Development – New Pit Opening | $11M |
| Precision Clad Strip Plant – Phase Two | $20M | Depreciation and Amortization | $58M |
| Extrusion Press Retrofit | $5M | Acquisition Amortization | $12M |
| Normal Segment Capex | $49M | | |

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*Note: This guidance was provided on May 3rd, 2023 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)* | Q1 2023 | Q1 2022 |
|---|---|---|
| **Net Sales** | | |
| Performance Materials | $ 187.0 | $ 149.6 |
| Electronic Materials | 228.8 | 270.8 |
| Precision Optics | 26.7 | 28.6 |
| Other | — | — |
| Total | $ 442.5 | $ 449.0 |
| | | |
| **Less: Pass-through Metal Costs** | | |
| Performance Materials | $ 19.0 | $ 20.5 |
| Electronic Materials | 124.9 | 168.6 |
| Precision Optics | — | 0.1 |
| Other | — | 0.7 |
| Total | $ 143.9 | $ 189.9 |
| | | |
| **Value-added Sales** | | |
| Performance Materials | $ 168.0 | $ 129.1 |
| Electronic Materials | 103.9 | 102.2 |
| Precision Optics | 26.7 | 28.5 |
| Other | | (0.7) |
| Total | $ 298.6 | $ 259.1 |

*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)* | Q1 2023 | Q1 2022 |
|---|---|---|
| **Operating Profit (Loss)** | | |
| Performance Materials | $ 35.5 | $ 19.1 |
| Electronic Materials | 9.7 | 8.0 |
| Precision Optics | (0.4) | (0.7) |
| Other | (7.9) | (6.8) |
| Total | $ 36.9 | $ 19.6 |
| **Non-Operating (Income)/Expense** | | |
| Performance Materials | $ 0.1 | $ 0.2 |
| Electronic Materials | — | — |
| Precision Optics | (0.2) | (0.2) |
| Other | (0.7) | (1.1) |
| Total | $ (0.8) | $ (1.1) |
| **Depreciation, Depletion, and Amortization** | | |
| Performance Materials | $ 7.4 | $ 5.9 |
| Electronic Materials | 4.3 | 4.1 |
| Precision Optics | 2.9 | 2.7 |
| Other | 0.5 | 0.5 |
| Total | $ 15.1 | $ 13.2 |
| **Segment EBITDA** | | |
| Performance Materials | $ 42.8 | $ 24.8 |
| Electronic Materials | 14.0 | 12.1 |
| Precision Optics | 2.7 | 2.2 |
| Other | (6.7) | (5.2) |
| Total | $ 52.8 | $ 33.9 |

*We have adjusted the results for certain special items such as restructuring and cost reduction initiatives (i.e., severance), additional start up resources and scrap, merger and acquisition costs and pension settlement 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)* | Q1 2023 | Q1 2022 |
|---|---|---|
| **Special Items** | | |
| Performance Materials | $ — | $ 2.7 |
| Electronic Materials | 0.4 | 6.8 |
| Precision Optics | 0.2 | 0.2 |
| Other | — | 1.0 |
| Total | $ 0.6 | $ 10.7 |
| | | |
| **Adjusted EBITDA Excluding Special Items** | | |
| Performance Materials | $ 42.8 | $ 27.5 |
| Electronic Materials | 14.4 | 18.9 |
| Precision Optics | 2.9 | 2.4 |
| Other | (6.7) | (4.2) |
| Total | $ 53.4 | $ 44.6 |

*We have adjusted the results for certain special items such as restructuring and cost reduction initiatives (i.e., severance), additional start up resources and scrap, merger and acquisition costs and pension settlement 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)* | Q1 2023 | Q1 2022 | Q1 2023 TTM | Q1 2022 TTM |
|---|---|---|---|---|
| **GAAP as Reported** | | | | |
| Net income | $ 25.6 | $ 14.0 | $ 97.6 | $ 69.7 |
| Income tax expense (benefit) | 4.6 | 3.0 | 18.7 | 4.4 |
| Interest expense | 7.5 | 3.7 | 25.7 | 7.9 |
| Depreciation, depletion, and amortization | 15.1 | 13.2 | 55.3 | 48.7 |
| **Consolidated EBITDA** | **$ 52.8** | **$ 33.9** | **$ 197.3** | **$ 130.7** |
| | | | | |
| Special Items | | | | |
| Restructuring and cost reduction | $ 0.6 | $ 1.1 | $ 1.0 | $ 6.6 |
| Merger and acquisition costs | — | 9.6 | 2.9 | 20.9 |
| Pension settlement | | | (0.5) | |
| Additional start-up resources and scrap | — | — | 4.1 | |
| Total Special Items | 0.6 | 10.7 | 7.5 | 27.5 |
| **Adjusted EBITDA** | **$ 53.4** | **$ 44.6** | **$ 204.8** | **$ 158.2** |

*We have adjusted the results for certain special items such as restructuring and cost reduction initiatives (i.e., severance), additional start up resources and scrap, merger and acquisition costs and pension settlement 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) | Three Months Ended March 31, 2023 | % of VA | Three Months Ended April 1, 2022 | % of VA |
|---|---|---|---|---|
| Net sales | $ 187.0 | | $ 149.6 | |
| Pass-through metal cost | 19.0 | | 20.5 | |
| Value-added sales | $ 168.0 | | $ 129.1 | |
| | | | | |
| EBITDA | $ 42.8 | 25.5 % | $ 24.8 | 19.2 % |
| Merger and acquisition costs | — | — % | 2.7 | 2.1 % |
| Adjusted EBITDA | $ 42.8 | 25.5 % | $ 27.5 | 21.3 % |

**Electronic Materials**

| (Millions) | Three Months Ended March 31, 2023 | % of VA | Three Months Ended April 1, 2022 | % of VA |
|---|---|---|---|---|
| Net sales | $ 228.8 | | $ 270.8 | |
| Pass-through metal cost | 124.9 | | 168.6 | |
| Value-added sales | $ 103.9 | | $ 102.2 | |
| | | | | |
| EBITDA | $ 14.0 | 13.5 % | $ 12.1 | 11.8 % |
| Restructuring and cost reduction | 0.4 | 0.4 % | 0.8 | 0.8 % |
| Merger and acquisition costs | — | — % | 6.0 | 5.9 % |
| Adjusted EBITDA | $ 14.4 | 13.9 % | $ 18.9 | 18.5 % |

**Precision Optics**

| (Millions) | Three Months Ended March 31, 2023 | % of VA | Three Months Ended April 1, 2022 | % of VA |
|---|---|---|---|---|
| Net sales | $ 26.7 | | $ 28.6 | |
| Pass-through metal cost | — | | 0.1 | |
| Value-added sales | $ 26.7 | | $ 28.5 | |
| | | | | |
| EBITDA | $ 2.7 | 10.1 % | $ 2.2 | 7.7 % |
| Restructuring and cost reduction | 0.2 | 0.7 % | 0.2 | 0.7 % |
| Adjusted EBITDA | $ 2.9 | 10.8 % | $ 2.4 | 8.4 % |

**Other**

| (Millions) | Three Months Ended March 31, 2023 | Three Months Ended April 1, 2022 |
|---|---|---|
| EBITDA | $ (6.7) | $ (5.2) |
| Restructuring and cost reduction | — | 0.1 |
| Merger and acquisition costs | — | 0.9 |
| Adjusted EBITDA | $ (6.7) | $ (4.2) |

*We have adjusted the results for certain special items such as restructuring and cost reduction initiatives (i.e., severance), additional start up resources and scrap, merger and acquisition costs and pension settlement 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) | Three Months Ended March 31, 2023 | Diluted EPS | Three Months Ended April 1, 2022 | Diluted EPS |
|---|---|---|---|---|
| Net income and EPS | $ 25.6 | $ 1.23 | $ 14.0 | $ 0.68 |
| Special items | | | | |
| Restructuring and cost reduction | 0.6 | | 1.1 | |
| Merger and acquisition costs | — | | 9.6 | |
| Provision for income taxes[1] | (0.7) | | (2.3) | |
| Total special items | (0.1) | (0.01) | 8.4 | 0.40 |
| Adjusted net income and adjusted EPS | $ 25.5 | $ 1.22 | $ 22.4 | $ 1.08 |
| Acquisition amortization (net of tax) | 2.5 | 0.12 | 2.5 | 0.12 |
| Adjusted net income and adjusted EPS excl. amortization | $ 28.0 | $ 1.34 | $ 24.9 | $ 1.20 |

*We have adjusted the results for certain special items such as restructuring and cost reduction initiatives (i.e., severance), additional start up resources and scrap, merger and acquisition costs and pension settlement 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 Free Cash Flow

| *($ in millions)* | Q1 2023 | Q1 2022 |
|---|---|---|
| **Free Cash Flow** | | |
| Operating Cash Flow | $ 38.1 | $ (14.3) |
| Capital Expenditures | (30.0) | (19.0) |
| **Free Cash Flow** | **$ 8.1** | **$ (33.3)** |

*We have adjusted the results for certain special items such as restructuring and cost reduction initiatives (i.e., severance), additional start up resources and scrap, merger and acquisition costs and pension settlement 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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