

Transcript of
Materion Corporation
Materion Second Quarter 2023 Earnings Conference Call
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Participants

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Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation
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Analysts

Philip Gibbs - KeyBanc Capital Markets
Michael Harrison - Seaport Research Partners
Daniel Moore - CJS Securities
David Silver - CL King
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Presentation

Operator

Greetings. Welcome to the Materion Second Quarter 2023 Earnings Conference Call. At this time all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] Please note this conference is being recorded.

I will now turn the conference over to your host, John Zaranec, Chief Accounting Officer. You may begin.

John Zaranec - Chief Accounting Officer, Materion Corporation

Good morning and thank you for joining us on our second quarter 2023 earnings conference call. This is John Zaranec, Chief Accounting Officer. 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 part of today's review of the quarterly results.

You can also access the materials through the download feature on the Earnings Call webcast link. With me today 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, as well as an update on key strategic initiatives. Following Jugal, Shelly will review the detailed financial results for the quarter, in addition to discussing our expectations for the remainder of 2023.

We will then open up the call for questions. Let me remind investors that any forward-looking statements made in the presentation, including those in the Outlook section and during the question-and-answer portion, are based on current expectations. The Company's actual 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, taxes, depreciation, depletion, and amortization, net income, and earnings per share reflect the adjusted GAAP numbers shown in attachments four through eight in this morning's press release. The adjustments are made in the prior year for comparative purposes and remove special items, non-cash charges and certain discrete income tax adjustments.

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

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Thanks, John. And welcome, everyone. It's great to be with you today to discuss details of our record second quarter performance, I'm pleased to share that our team's relentless focus on delivering for our customers and driving operational excellence resulted in an 11th consecutive quarter of year-over-year earnings growth from Materion.

The second quarter also marked an important milestone for margin expansion. We outperformed our midterm target of 20% adjusted EBITDA with a margin of 20.7% of value-added sales. This achievement reflects the quality of our portfolio and our team's ability to respond quickly to changing macroeconomic conditions.

More and more customers are turning to Materion to help them solve their most technically demanding challenges, strengthening our portfolio of business, even as we navigate mixed market conditions. Our deep customer partnerships across diverse industries have allowed us to capitalize on opportunities aligned with compelling global megatrends positioning Materion for long-term growth.

Clean energy is one such exciting megatrend driving new opportunities for us. In previous quarters, we have discussed our multiple clean energy partnerships, including the \$15 million customer funded investment to provide critical materials for power generation. Facility upgrades for this project are near completion, and we have started to ship product to our customer. Today, we are pleased to announce two new, exciting customer projects that are on the cutting edge of clean energy development.

First, we have entered into an agreement with the Idaho National Lab to support the US. Department of Energy's new Marvel Nuclear Microreactor Project. We plan to start providing material this year. In addition, we have reached agreement to provide material for another promising next generation clean energy program in Asia. Both of these proofs of concept programs could lead to larger opportunities for materials in the future.

Materion is becoming a sought-after provider for materials in this exciting space aligned with our targeted global megatrends. Focusing on our second quarter results, value added sales were flat year-over-year, largely due to softness in the semiconductor market. When excluding semi, VA sales grew 14%, driven by growth in aerospace, defense, telecom and data center and the Precision Clad Strip project.

As we continue our track record of delivering strong organic growth, what I'm most encouraged by is that on roughly flat sales, we delivered 18% higher adjusted EBITDA of \$55.5 million, a 320-basis point expansion year-over-year, and a second quarter record for our Company. This record performance included meaningful contribution from our Precision Clad Strip facility, where our teams are working diligently to meet our customers' needs while working on the phase two expansion, which is progressing well.

As you know, we have increased our content across new aircraft builds by more than 25% since 2019, which, coupled with strong build rates, has supported our year-over-year growth in this market for nine consecutive quarters. The defense market was also a highlight for us, as the properties of our materials are well suited for highly technical applications that must perform in the most harsh and demanding conditions.

Our expertise and track record serving this important market can continue to create new sales opportunities, resulting in multiple new customer partnerships to develop next generation defense applications. On the connectivity front, the substantial global growth of 5G has driven up demand for connectors and undersea cables, which is a segment of the market that has been a core competency for us for years.

Growth in these markets has helped offset significant softness in semiconductor, which continued over the course of the quarter, particularly in logic and communication-based devices where we are seeing meaningful inventory correction. We are encouraged by a number of positive signs we've seen in the broader semi market and expect that the second quarter was likely the bottom for the chip manufacturers. Given these positive signs and our position in the supply chain, we believe we will start to see gradual improvement in the fourth quarter of this year.

As you know, semi-cycles can lead to strong upturns when we're ready to support that volume as it materializes. Key to our continued strong performance is an unwavering focus on operational excellence, ensuring we deliver strong results despite macro environment. We continue to look for ways to run our Company more efficiently and to focus our resources on growth areas. In response to the recent macro softness, our teams have executed a number of targeted cost improvement initiatives.

These actions have been well planned and aimed to strengthen our Company while protecting our ability to deliver the strong output you've come to expect from Materion. With accelerating contributions from our organic pipeline, a gradual semiconductor recovery on the horizon, and the benefit of our targeted cost improvement initiatives, we remain confident in our ability to execute and deliver another year of record results. With that, we are affirming our full year guidance for 2023.

Now let me turn the call over to Shelly to cover more details on the financials.

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

Thanks Jugal, and good morning everyone. During my comments, I will reference the slides posted on our website this morning, starting on slide nine.

As Jugal outlined in his opening remarks, we delivered a record second quarter for adjusted EBITDA and earnings per share. Value added sales, which exclude the impact of pass-through precious metal costs were \$268.3 million for the quarter, roughly flat with prior year. Excluding the expected softness in semiconductor, the remainder of the business was up approximately 14%. This growth was driven mainly by strong demand across the aerospace, defense, telecom and data center end markets along with meaningful contribution from Precision Clad Strip. We delivered adjusted earnings of a \$1.38 per share in the second quarter, up 8% as compared to the prior year despite roughly twelve cents of interest expense headwinds.

Moving to slide 10, adjusted EBITDA in the quarter was \$55.5 million, or 20.7% of value-added sales, up 18% from the prior year, with margin expansion of 320 basis points. This significant increase was driven by favorable price mix and strong operational performance, offset by a slight decrease in volume. Our targeted cost improvement initiatives contributed to this significant step in earnings outperforming the previously shared midterm EBITDA target margin of 20%.

Moving to slide 11, let me review second quarter performance by business segment. Starting with our performance materials business, value added sales were \$165.6 million, up 24% compared to prior year. Strong results in aerospace, Telecom, data center and Precision Clad Strip drove the increase. EBITDA, excluding special items, was \$45.9 million, or 27.7% of value-added sales, up 69%, compared to \$27.2 million in the second quarter of 2022, with 740 basis points of margin expansion. This growth was primarily due to increased volume from our outgrowth initiatives, favorable price mix and strong operational performance. The second quarter also included the benefit from the Inflation Reduction Act's advanced manufacturing production credit.

Moving to the outlook, we expect a strong second half, led by aerospace, defense and Telecom and Data Center year. We also expect continued strength from several of our organic initiatives. Next, turning to electronic materials on slide 12, value added sales were \$77.6 million, down 27% compared to the prior year, as a result of the slowdown within the semiconductor market, causing significant inventory correction across logic and communication devices.

EBITDA excluding special items, was \$14.6 million, or 18.8% of value-added sales in the quarter. Targeted cost reduction initiatives worked to partially offset the soft demand. Despite this year-over-year decline, we did see a sequential margin improvement of 500 basis points resulting from strong operational excellence and targeted cost actions.

As we look forward to the remainder of the year, we expect the semiconductor market to gradually rebound starting in Q4 as inventory levels normalize. Finally, turning to the precision

optics segment on slide 13, value added sales were \$25.1 million, down 15% compared to prior year. This decrease was mainly driven by reduced PCR filter demand, the discontinued product application, and softening in the consumer electronics market, slightly offset by strength in aerospace and defense.

EBITDA excluding special items, was \$2.6 million, or 10.4% of value-added sales. The decrease in volume was a meaningful driver of this year-over-year decline, offset by positive mix and the benefit of meaningful cost improvement initiatives. Looking out to the back half of the year, we expect improvement to the top and bottom line, supported by improved order rates in defense, space and automotive, coupled with the continued benefit of cost improvement activities.

Moving now to cash debt and liquidity on slide 14, we ended the quarter with a net debt position of approximately \$424 million and \$169 million of available capacity on the Company's existing credit facility. Our leverage at two times remains slightly below the target range.

Lastly, let me transition to slide 15 to address the full year outlook. With accelerating contributions from our organic pipeline, a gradual semiconductor recovery starting in the fourth quarter, and the benefit of our targeted cost improvement initiatives, we remain confident in our ability to deliver another record year. With that, we are affirming our previously shared adjusted EPS range at \$5.60 to \$6.00 per share, representing a 10% increase from 2022 at the midpoint.

In closing, we are excited for the second half of 2023 as we expect continued market outgrowth and the early phases of semiconductor rebound, along with the benefit of an improved cost structure, will contribute to another year of record results and long-term sustainable value creation for our stakeholders.

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

Question-and-Answer Session

Operator

[Operator instructions]. Our first question is coming from Phil Gibbs from KeyBank capital markets. Please proceed with your question.

Q: Hey, good morning. Just, Chief question is just on a broader base on the semi and consumer business is consumer electronics. I know you're pointing to a fourth quarter a rebound in some of these businesses. But is 3Q going to show signs that the revenues start to stabilize? Or do we have another quarter where we see sequential declines?

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Yes. Phil, as you know, in the semi market, if you look at the last 8 quarters or so or even 10 quarters, our business has done exceptionally well compared to the market. We've had a great portfolio that I think has supported a number of different markets in the semi area. Q2, we had

seen actually a deceleration of our orders in the March time frame that continued, and we were expecting Q2 to be the bottom.

And I would say probably is the bottom, but now we probably see it as maybe an equivalent Q3 and then recovery in Q4. So, I'm not sure I would necessarily see a decline, but some sort of a stabilization and then recovery in Q4. I think overall, our semi business, like I indicated, I think, has done really well over the last 10 quarters. We're a little later in the cycle when it comes to the declines. And so, we were expecting our Q2 to be this way, and it will just continue on a little bit in Q3 and recovery in Q4. So, I think we're well positioned for the recovery.

Q: The pickup in margins in Electronic Materials in the second quarter, was that more so due to cost reductions? Or was that due to the tantalum misalignment going away? Or was it a little bit of both?

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

I think it's a little bit of both, but our cost improvement actions were weighted towards Electronic Materials and our Precision Optics business because of the market conditions impacting those businesses. So certainly, the cost improvement actions were a factor, but other operational improvements such as the tantalum, were a factor as well.

Q: And then just lastly for me; any update on what you're anticipating from net working capital in the second half of the year and anything that you could share on the Clad Phase- II commissioning? I've missed your prepared remarks on that, if you made them.

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

So, on working capital, you've seen we're generating cash from AR and AP, but inventory has still been a bit of a drag. There are organic reasons for that. Some of that is Clad Strip, where we're trying to actually build some inventory while we're serving the customer. So that's a natural and expected build. Also, if you recall, the space propulsion system opportunity that we've talked about, we have to do a little bit of raw material build there as well.

So, we haven't seen the opportunity to really bring down inventory meaningfully. I don't expect it's going to be a burn, a cash burn the rest of the year, but not a huge cash generator either. And then on the Clad Strip Phase II, that expansion is going quite well. And as we expected, the equipment is in. Everything is on order and in and in the process of being set up. So, I think that's moving along as expected.

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Yes. I mean we would expect that to continue, as Shelly has indicated. And as we've noted, we would probably see a small start in the end of '24 and then really pick up in '25, full run rate in '25, and that's still our still our plan. So, the team is doing a great job.

Operator

Your next question is coming from Mike Harrison from Seaport Research Partners.

Q: So, you noted this inventory correction in logic and communication applications within semiconductor. I think up to this point, we've mostly been viewing the destocking is more of a memory specific issue. So, I was just hoping you could give us a little more color on what you're expecting with some of those volume trends in semiconductor as we get into the second half, I guess, specifically differentiating between lodging and communication and what you're seeing in memory?

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Yes. So, Mike, we did see a decrease in memory as well, just not to the level that we saw for logic and communication. And really, from logic and communication, I think there's a couple of our customers that happen to have some inventory that they needed to work through. And so that's why we see it as just an inventory correction that was going -- that happened here in Q2. And I think it will carry over a little bit into Q3 and then we should be fine going into Q4. A big part of our business, frankly, is in the logic area and communication area, and we're very glad that we have a very diversified portfolio within semi between logic, power, communication, memory, et cetera.

And so, I think that's one of the reasons that we have not been impacted to the level that I would say the broader semi market has been impacted over the last couple of years as the increase happened and then, I guess, the decrease over the last year or so because of the diversified portfolio that we have. So, we did experience a slowdown in memory, but more of an inventory correction, I think, from a couple of customers on logic and communication.

Q: All right. That's very helpful and then just curious on the Precision Clad Strip business. I believe you have some legacy operations there. Are those going to be shut down at some point as you kind of ramp up the first and second phase of the new plant? And if so, what impact does that have on sales and on costs as we think about the P&L impact?

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Yes. So, we do. We have that legacy plant where we had started lower volume production. And then, of course, we have the new facility that has picked up and ramped up on the higher volume. At this stage, that is still both facilities are continuing. And the way we have operated with the customer is that if we have the orders, we'll continue to operate and if they feel that the transition to the new facility we'll give them everything that they're looking for, then we'll go ahead and stop producing from our existing legacy facility and then reallocate that capacity to other businesses.

So, I think in total, we wouldn't necessarily see a decrease in sales. In fact, what I would just see is maybe more of a shift in sales at any point, whenever we think the legacy facility would need to be shut down for this particular product. But as of right now, the customer is continuing to order, and we'll continue to build.

Q: All right. And then last question I have is on the automotive market. You noted a decline in that business. It sounds like that was kind of order timing driven. But I believe that just from a production standpoint, Q3 is kind of a tougher comp against the prior year. Maybe discuss and give us a little bit of color on how you expect automotive to trend in the second half.

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Yes. Well, first of all, when you look at our automotive business, the first half of the year, we're up 6% year-over-year. Q1 was our second highest quarter for automotive sales since we've been tracking automotive. So really, there was a sequential decline. And I think like you noted, it was a timing. And when you look at the overall first half, we're up 6%.

And I think we would expect that trend to continue into the second half. There is, to your point, production challenges that happened in the third quarter just based on holidays and things like that. But we don't expect our order timing, the way it works. I don't think we would expect any type of a negative hit based on that. I think we would expect second half to be equivalent to about our overall first half.

Operator

Our next question is coming from Daniel Moore from CJS Securities.

Q: Just wanted to go back again and touch on the margins. Obviously, really impressive, particularly in Performance Materials. I think you called out advanced manufacturing production credit. Just talk about any maybe nonrecurring items that might have been in there and just the sustainability of margins in that segment as we think about the balance of the year and moving forward?

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

Yes, Dan, good question. So obviously, we are taking the benefit of that production credit. As you know, we're waiting for kind of further guidance as we fine-tune that number, but we're still going with kind of the same estimate that we came up with at the beginning of the year. So that is a nice benefit for Performance Materials. They did have a nice mix in the quarter as well.

So, we had some Beryllium hydroxide, which is rich mix and some other items that kind of beefed up those margins a bit. When we talk about the targeted cost actions, certainly, there was nothing meaningful in Performance Materials as that business does not have the demand issues. But we did do a couple of things to kind of tighten things up. So, the plants are running well. We're seeing great operational excellence, a little bit of cost action, the benefit of the production credit and then a nice mix.

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Yes, Dan, and I just would note, I think this is our third consecutive quarter where this business has delivered greater than 25% margins. And it has done well, and we're very proud of what I think the teams have accomplished in this business, both from a top line standpoint and I think executing the Clad Strip program, for example, and then all the other things that are involved. Our expectation is that this business continues to deliver around that 25% EBITDA level.

Q: Really helpful. And then shifting gears. Clean Energy, you called out. Any sense for the size of the opportunities you mentioned in Idaho as well as new projects in Asia. And just more generally, are you seeing kind of an inflection point in terms of these new types of emerging technology opportunities.

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Yes. Energy, as you know, has been a very, very important market for us for a long time, right, and has a number of different items in it. Clearly, the oil and gas business that we have, which is a very strong business for us, both on the ToughMet material that we have, the Beryllium copper material that we have. It's a very, very strong business, and we continue to have that be strong going forward. I think at the same time, we're really focused on making sure that we're aligning to the megatrends, as you know, in general, and clean energy is certainly a megatrend that we're aligning to.

We've talked about a couple of good partnerships in the past. Kairos is one partnership that we've talked about. We'll have beryllium-based material that is being used for a sort of a proof-of-concept type of a program. We announced this program where we have a \$15 million customer funded, 100% customer funded, I might add, for clean materials for power generation, we announced that a couple of quarters ago. And these two proof-of-concept partnerships that we are engaged in. And what I'm really excited about is one is in North America, one is in Asia.

They're relatively small, so I'd say, a few million between the two items, but there are fantastic opportunities here to get into the ground floor and get into the proof-of-concept base so that if these things are successful, we would end up benefiting from the larger opportunities down the road. So, I think it is something that is getting a lot more attention. I mean we're seeing that, I think, on the macro on the megatrend side. And our materials are extremely well suited for this market. And so, we're making sure our teams understand that, and they're really out knocking on doors and trying to figure out how we can have opportunities for this exciting space in addition to the solid base that we have on the oil and gas side.

Q: Just talk about the backlog and pipeline of opportunities in Precision Optics, we don't talk quite as much about it. And do you expect to return to growth by fiscal '24? And how quickly can we get back to sort of mid-teens margins in that business?

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Yes. I think '24, I mean you indicated '24 for growth as well as the margins. And I absolutely would expect that. I think that we should expect an incremental improvement in the back half of this year, both on the top line and the bottom line as we continue to have more success,

particularly in the space segment, the automotive segment and the defense segment. And then we would expect continued improvement into '24, so that the business is growing on a sustainable basis as well as delivering the margins that we have expected, and you all have expected from this business. So, I would expect that in '24, yes.

Operator

Our next question is coming from David Silver from CL King.

Q: So, I have a few questions. I apologize, this will probably be a little scatter shot. The first thing I would like to go back to the outstanding margin performance this quarter. And as others have noted on this call, I mean it seems to be concentrated in your Performance Materials segment where you called out the Clad Strip project. And I'm just wondering, not so much from the per unit basis, but was this a quarter where there was an unusually high shipment rate on the Clad Strip project? In other words, was the contribution to earnings and the specialty EBITDA margin in the Performance Materials segment. Was that kind of unduly influenced, I guess, by maybe a temporary or a timing element in terms of the shipment rate during the quarter on the clad strip project?

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Yes. First of all, I think on the overall margin for the company, as you know, we've continued to state that our objective midterm is to be north of 20% EBITDA margins. And I'm extremely proud of the team to deliver that north of 20% in this time frame in the Q2. Now of course, it's one data point. So, we've got to be able to do that for several quarters in a row to be able to call it a trend, and we're very much looking forward to doing that in the midterm time frame. I think the other thing that I would note is that Performance Materials certainly delivered these good margins that we've talked about.

We also had on our electronic materials business, 500 basis point sequential improvement from Q1 to Q2. So, Performance Materials was definitely positive, but I think the Electronic Materials segment has come through as well and delivered a really, really good performance margin-wise here in the second quarter. When it comes to the Precision Clad business, that business continues to perform well. It did not have, I would say, an unusual quarter, both from a top line or a bottom-line standpoint. It's pretty much in line with kind of the things that we've expected. And so, I would not say that it had an artificial boost or a onetime boost any type of really a single project or single program benefit.

Q: My next question actually would be about the balance sheet, okay? So, when I look at the inventory levels, in particular, in the second quarter, it seems like they've risen quite a bit in the first half of this year, and they are at record levels, I think, at least according to my models. And I'm just trying to align or put together the thinking with maybe a meaningful boost in your inventory levels at the same time that maybe your sales or your shipment volumes are moderating a little bit.

And given your outlook reaffirming the outlook for the second half. I mean I'm just kind of wondering if sales are not really reacting strongly just yet overall, for your company, why would you be building inventory? Is there a strategic element to that or timing? How should we think about that record inventory level when your sales growth seems to be a little bit less, declining a little bit relative to the strong double-digit growth you've been reporting in previous quarters.

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

So, there's a few things, and we talked about the Precision Clad Strip business. We need to build some inventory. We've agreed with the customer. We will hold some inventory as part of our arrangement with them. So, we've been working to build up some inventory just for that business. So that is a piece of it. Also with the Space Propulsion Systems, as I mentioned, we needed to add some new raw materials. We've been adding that, building that up. So that's sort of one piece that's organic growth focused.

The other item to think about is our Performance Materials business, that inventory chain really with the backward integration nature of it is not something that's quick to adjust inventory levels. It goes through several phases of production. And we don't normally kind of shut down quickly or start up quickly. It runs pretty consistently, so you don't see big swings. So that's been a driver. I wouldn't say that we are building inventory where volumes are down.

Q: Okay. So maybe for the next year or two your business is just going to naturally become more inventory intensive, I guess, or the inventory to sales ratio will shift to reflect the new business opportunities you're working on? Is that a fair what you're outlining?

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

Certainly, I'm always focused on trying to optimize those levels. And it's always a relationship with the business units to the CFO wants the cash and the businesses need to serve the customers. So, we work at being more efficient, and we will continue to do so. Higher sales volumes do naturally improve those ratios. But we do have the inventory levels that we need.

Q: Last question would be on the electronic materials side of things and in particular, maybe your development programs in Newton and Milwaukee. So, we're in kind of a slower patch and I think people who may have hoped that the inventory liquidation would have run its course, hopefully by the middle of the year. I think most companies that have exposure to that, that have reported, they've kind of are pushing out to the right a little bit when inventory conditions there may return to normal.

My assumption is the cycles here are very short, and you made a comment. I think when things turn up, it's going to turn up abruptly. So, in thinking about the timing of your expansion programs and being ready for when the market shifts, I mean, has anything changed in your thinking timing-wise? Or anything according to that maybe that in aligning with your customers' wishes, I mean, anything that's maybe pushed out those development programs, any change in your thinking about what you need to have in place when?

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Yes. David, I would say that our expansion plans and our growth plans are intact. We are continuing both in our Milwaukee facility as well as in our Newton facility with our growth plans. We have good relationships with our customers, so we understand kind of where things are with those particular projects that are engaged in those growth plans. And we want to make sure that we're fully ready.

Like you said, the cycles are very short, and we want to make sure that we can support the customers as the uptick happens, which is not too far away, right? As we indicated, we would start to see an uptick here in Q4. So no, we are moving ahead. We're moving ahead really at the same pace that we were moving at before, and we're not letting this inventory correction or, let's say, a bit of a slowdown here, hold us back. We want to make sure we can support our customers in a very good way as soon as the recovery starts to happen.

Operator

Our next question is coming from Dave Storms from Stonegate.

Q: Just hoping we could touch on capital allocation really quick. It's been a couple of quarters since you've done any buybacks. Your debt has been in range. Just wondering if you could speak about your capital allocation priorities and compare that to any M&A activity you're seeing in the market?

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

Yes, sure. I'll take that one. So, we are very excited about our organic pipeline. And as you know, we've been really prioritizing our investments for growth. So, Capex has really been our #1 priority. We did a very large deal from an M&A perspective at the end of '21, which has been fully integrated, and we love what that business is doing for us. We're certainly open and looking at M&A opportunities, but it's not something that we are out frantically searching for to drive growth because of the nature of the organic opportunities that we have in front of us. From a buyback perspective, that's really not a priority. We have the authorization. It's a tool out there that we could use opportunistically, but it's not a priority for us at this time.

Q: There's been a lot of great conversation about Precision coming back online, hopefully, semi is obviously expected to come back in 4Q. Is it too early to start talking about what your expectations might be for 2024 overall? Any thoughts there?

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Yes. I mean, typically, for our '24, we go through a process internal to the company in, let's say, back half of Q3, first half of Q4, to kind of understand and put with our thoughts around it, and then we communicate our view in the February call. So that is still our plan and that's what we expect to do.

Operator

We have reached the end of the question-and-answer session. And I will now turn the call over to John Zaranec, Chief Accounting Officer, for closing remarks.

John Zaranec - Chief Accounting Officer, Materion Corporation

Thank you. This concludes our second quarter 2023 earnings call. A recorded playback of this call will be available on the company's website, materion.com. I'd like to thank you for participating on this call and your interest in Materion. I will be available for any follow-up questions. My number is (216) 383-4010. Thanks again.

Operator

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