

Materion Corporation 2Q 2023 Earnings Call

August 2, 2023



MATERION

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

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 outbreaks from infectious diseases 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 23 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



Q2 2023 Highlights

Record 2nd Quarter Adjusted EBITDA and EPS

Outperformed midterm adjusted EBITDA target margin of 20%

Achieved eleventh consecutive quarter of YoY growth for adjusted EBITDA and EPS

Value-added (VA) sales of \$268.3 million

- VA sales up 14% excluding the expected semiconductor market softness
 - Diversified portfolio and organic growth initiatives mitigating semiconductor headwinds
 - Strength in aerospace, telecom & data center, defense and precision clad strip






















Adjusted EBITDA of \$55.5 million or 20.7% of VA, up 18% YoY on flat VA sales

- Highest reported adjusted EBITDA margin to date
- 320 bps margin expansion YoY, 280 bps sequentially
- Strong operational performance and targeted cost improvement initiatives driving further margin expansion despite the mixed macro environment

Record 2nd quarter adjusted EPS of \$1.38



End Market Performance

| Q2 2023 | | | | YTD 2023 | |
|--|----------|--|---|----------|--|
| Market | VA Sales | vs. Q2 2022 | Q2 Comments | VA Sales | vs. YTD |
|  Semiconductor | \$61.9 |  -29% | <ul style="list-style-type: none"> March sales deceleration continued through the quarter, with significant inventory correction for logic and communication devices | \$147.5 |  -13% |
|  Industrial | \$50.4 |  -2% | <ul style="list-style-type: none"> Lower demand across consumer goods related manufacturing and timing of orders | \$103.0 |  0% |
|  Aerospace & Defense | \$35.8 |  25% | <ul style="list-style-type: none"> Ninth consecutive quarter of growth in Aerospace led by increased content and build rate Defense up with new business and timing of orders | \$68.9 |  22% |
|  Energy | \$19.5 |  -2% | <ul style="list-style-type: none"> Lower rig count impacting near-term demand in Oil & Gas Positive contributions from new business in other energy sectors | \$40.2 |  4% |
|  Automotive | \$19.3 |  -10% | <ul style="list-style-type: none"> Timing of orders after a strong Q1, YTD sales up 6% ICE segment weakness, offset by growth in EV | \$42.7 |  6% |
|  Telecom & Data Center | \$14.5 |  14% | <ul style="list-style-type: none"> Eighth consecutive quarter of growth in Telecom & Data Center Strong connector demand driven by increasing 5G applications and undersea cable market | \$28.7 |  14% |
|  Consumer Electronics | \$12.1 |  -38% | <ul style="list-style-type: none"> Smart phone market down 20% year over year Discontinued product application in Optics | \$23.2 |  -34% |

Key Takeaways

Achieved another quarter of record results

- Highest reported EBITDA margin of 20.7%
- Record 2nd quarter adjusted EBITDA and EPS
- Eleventh consecutive quarter of year-over-year growth in adjusted EBITDA and EPS

Delivering on key strategic growth initiatives

- Meaningful contribution from previously announced organic initiatives
- Precision Clad Strip opportunity contributing, expansion on track
- Robust pipeline of new customer projects positioning Materion for sustainable long-term market outgrowth

Affirming full year guidance

- Expect gradual market recovery, combined with the benefit of strong organic pipeline
- Continued focus on operational excellence with greater contribution from targeted cost improvement actions
- Capital investments remain on track to support growth opportunities

Financial Review

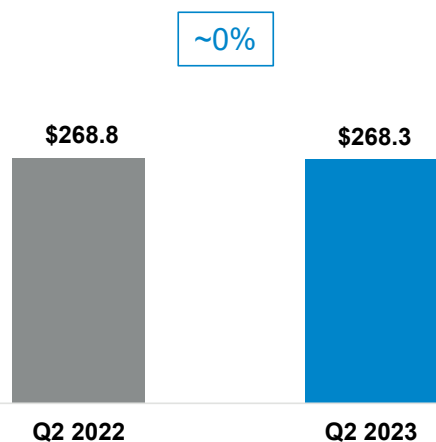
Shelly Chadwick

Vice President and Chief Financial Officer



Q2 2023 Operating Performance

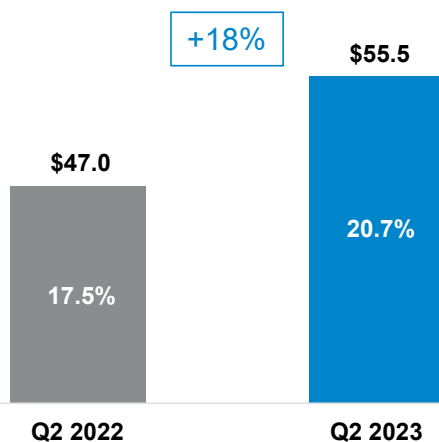
Value-added Sales (\$M)



Value-added sales were \$268.3 million, flat with prior year

- Excluding the semiconductor softness, remainder of business was up 14%
- Strength across key end markets led by aerospace, telecom & data center and defense
- Precision clad strip contributed meaningfully

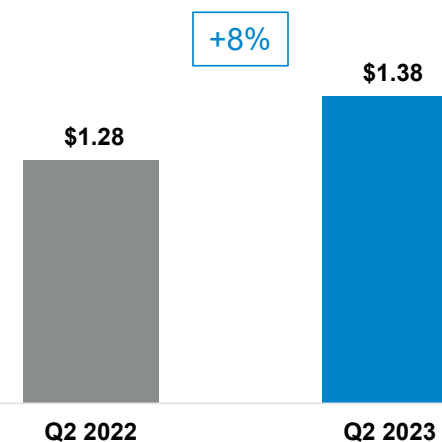
Adj. EBITDA (\$M)



Adjusted EBITDA was \$55.5 million, margin of 20.7%, up 320 bps from prior year

- Outperformed mid-term target EBITDA %
- Strong operational excellence and targeted cost improvement initiatives contributed to earnings growth

Adj. EPS



Adjusted EPS of \$1.38, up 8% from prior year

- Record second quarter
- Interest expense headwind of ~\$.12/share YoY

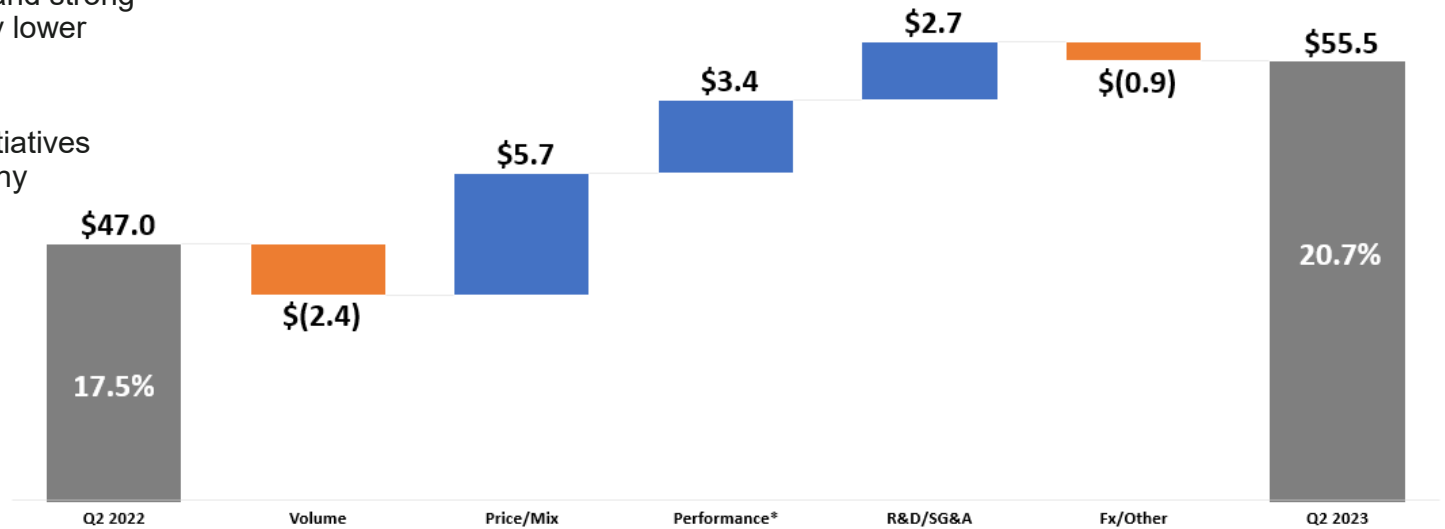


See appendix for reconciliations of value-added sales, adjusted EBITDA, adjusted EBITDA margin and adjusted EPS with acquisition amortization to their most comparable GAAP financial measures. Certain data presented above has been rounded for presentation purposes.

Q2 2023 Financial Comparison

Adjusted EBITDA of \$55.5 million, or 20.7% of VA Sales

- Driven by favorable price/mix and strong performance, partially offset by lower volume
- Targeted cost improvement initiatives contributing across the company
- 320 bps margin expansion

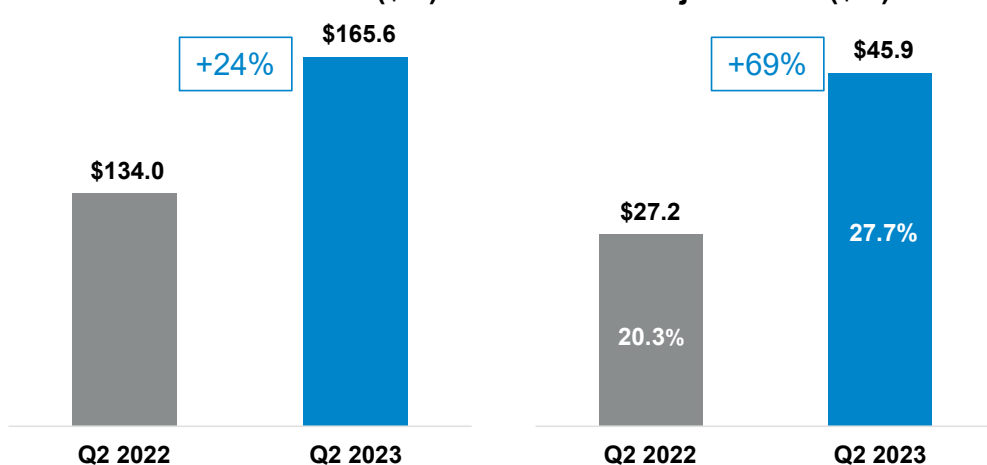


*Performance includes the Q2 '23 impact of the inflation reduction act production credit. See appendix for reconciliations of value-added sales, adjusted EBITDA, adjusted EBITDA margin and adjusted EPS with acquisition amortization to their most comparable GAAP financial measures. Certain data presented above has been rounded for presentation purposes.

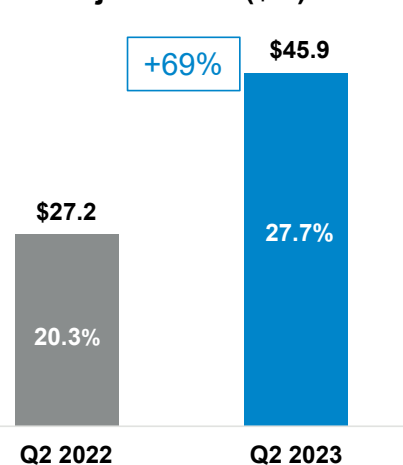


Performance Materials Segment

Value-added Sales (\$M)



Adj. EBITDA (\$M)



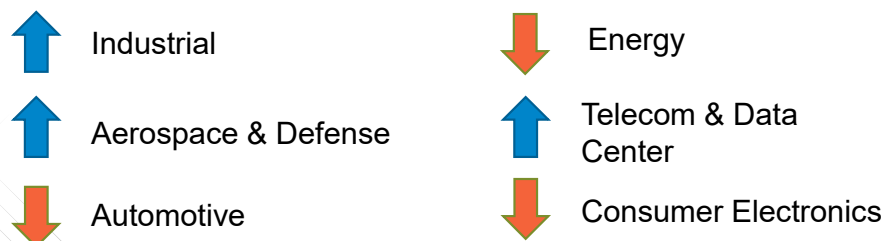
Value-added sales of \$165.6 million, up 24% from prior year

- Meaningful contribution from precision clad strip
- Strong demand in the aerospace and telecom & data center end markets

Adjusted EBITDA of \$45.9 million, up 69% from prior year

- Record 27.7% adjusted EBITDA margin, up 740 bps from prior year
- Driven by higher volume, price/mix and strong operational performance

Q2 Performance by End Market



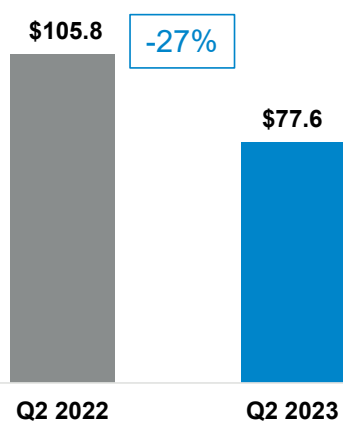
2H 2023 Outlook:

- Strong demand led by aerospace, defense and telecom & data center
- Meaningful contribution from organic initiatives

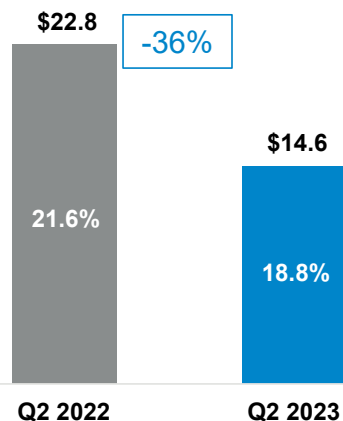


Electronic Materials Segment

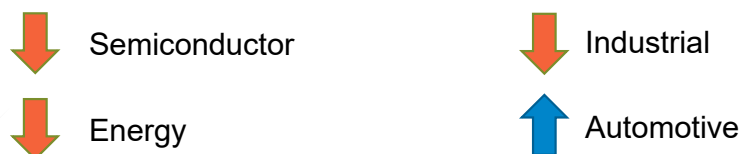
Value-added Sales (\$M)



Adj. EBITDA (\$M)



Q2 Performance by End Market



Value-added sales of \$77.6 million

- Expected slowdown in the semiconductor market
- Inventory correction in logic and communication devices

Adjusted EBITDA of \$14.6 million

- Targeted cost improvement initiatives partially offset softer demand
- Sequential margin improvement of 500 bps driven by strong operational performance and targeted cost actions

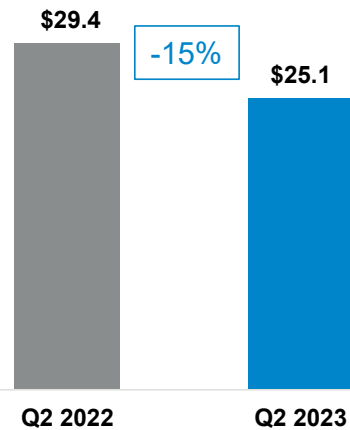
2H 2023 Outlook:

- Semiconductor recovery expected to start in Q4 as inventory normalizes in the channel
- Greater contribution from cost improvement initiatives

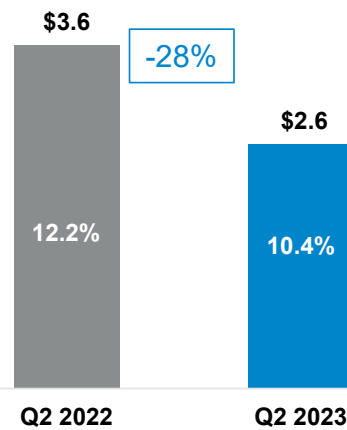


Precision Optics Segment

Value-added Sales (\$M)



Adj. EBITDA (\$M)



Value-added sales of \$25.1 million

- Decrease mainly driven by reduced PCR filter demand, discontinued product application and softening in the consumer electronics market
- Strength in aerospace & defense

Adjusted EBITDA of \$2.6 million

- Mainly driven by decrease in volume, offset by positive mix and targeted cost improvement initiatives

2H 2023 Outlook:

- New projects in defense, space and automotive will contribute
- Greater benefit from cost improvement initiatives

Q2 Performance by End Market



Cash, Debt and Liquidity

| (\$M) | Q2 2022 | Q2 2023 |
|-----------------------------------|----------------|----------------|
| Short-term Debt | \$15.3 | \$27.5 |
| Long-term Debt | \$482.0 | \$412.7 |
| Total Debt | \$497.3 | \$440.2 |
| Cash & Cash Equivalents | \$32.2 | \$16.6 |
| Net Debt (Cash) | \$465.1 | \$423.6 |
| TTM Adjusted EBITDA | \$172.6 | \$213.3 |
| Net Debt (Cash) / TTM Adj. EBITDA | 2.7x | 2.0x |

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

Approximately \$169 million available on existing credit facility

- Adequate liquidity remains to support growth initiatives

No share buyback activity in the quarter

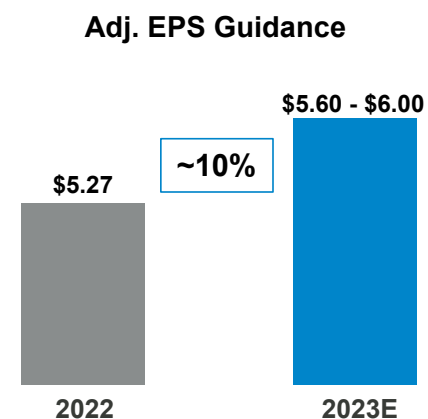
- Board authorization in place for up to \$50M worth of shares with \$8.3M remaining

Balancing organic growth investment and debt paydown

Full Year 2023 Guidance

2023 Guidance

- Affirming 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 | 17-18% |
| 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 | | |



Note: This guidance was provided on August 2nd, 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

Appendix

Reconciliation for Value-added Sales

| (\$ in millions) | <u>Q2 2023</u> | <u>Q2 2022</u> | <u>YTD 2023</u> | <u>YTD 2022</u> |
|---------------------------------------|----------------|----------------|-----------------|-----------------|
| Net Sales | | | | |
| Performance Materials | \$ 182.8 | \$ 154.9 | \$ 369.8 | \$ 304.5 |
| Electronic Materials | 190.7 | 261.0 | 419.5 | 531.8 |
| Precision Optics | 25.1 | 29.4 | 51.7 | 58.0 |
| Other | — | — | — | — |
| Total | \$ 398.6 | \$ 445.3 | \$ 841.0 | \$ 894.3 |
| Less: Pass-through Metal Costs | | | | |
| Performance Materials | \$ 17.2 | \$ 20.9 | \$ 36.2 | \$ 41.4 |
| Electronic Materials | 113.1 | 155.2 | 238.0 | 323.8 |
| Precision Optics | — | — | — | 0.1 |
| Other | — | 0.4 | — | 1.1 |
| Total | \$ 130.3 | \$ 176.5 | \$ 274.2 | \$ 366.4 |
| Value-added Sales | | | | |
| Performance Materials | \$ 165.6 | \$ 134.0 | \$ 333.6 | \$ 236.1 |
| Electronic Materials | 77.6 | 105.8 | 181.5 | 208.0 |
| Precision Optics | 25.1 | 29.4 | 51.7 | 57.9 |
| Other | — | (0.4) | — | (1.1) |
| Total | \$ 268.3 | \$ 268.8 | \$ 566.8 | \$ 527.9 |

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.

Reconciliation for Non-GAAP Measures

(\$ in millions)

| | <u>Q2 2023</u> | <u>Q2 2022</u> |
|--|-----------------|-----------------|
| Operating Profit (Loss) | | |
| Performance Materials | \$ 36.5 | \$ 21.8 |
| Electronic Materials | 9.1 | 18.2 |
| Precision Optics | (1.5) | 0.7 |
| Other | (8.7) | (8.8) |
| Total | <u>\$ 35.4</u> | <u>\$ 31.9</u> |
| Non-Operating (Income)/Expense | | |
| Performance Materials | \$ 0.1 | \$ 0.1 |
| Electronic Materials | — | — |
| Precision Optics | (0.2) | (0.2) |
| Other | (0.6) | (1.1) |
| Total | <u>\$ (0.7)</u> | <u>\$ (1.2)</u> |
| Depreciation, Depletion, and Amortization | | |
| Performance Materials | \$ 8.5 | \$ 5.5 |
| Electronic Materials | 4.3 | 4.2 |
| Precision Optics | 3.0 | 2.6 |
| Other | 0.5 | 0.6 |
| Total | <u>\$ 16.3</u> | <u>\$ 12.9</u> |
| Segment EBITDA | | |
| Performance Materials | \$ 44.9 | \$ 27.2 |
| Electronic Materials | 13.4 | 22.4 |
| Precision Optics | 1.7 | 3.5 |
| Other | (7.6) | (7.1) |
| Total | <u>\$ 52.4</u> | <u>\$ 46.0</u> |

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.



Reconciliation for Non-GAAP Measures (Cont.)

(\$ in millions)

| | <u>Q2 2023</u> | <u>Q2 2022</u> |
|--|----------------|----------------|
| Special Items | | |
| Performance Materials | \$ 1.0 | \$ — |
| Electronic Materials | 1.2 | 0.4 |
| Precision Optics | 0.9 | 0.1 |
| Other | — | 0.5 |
| Total | <u>\$ 3.1</u> | <u>\$ 1.0</u> |
| Adjusted EBITDA Excluding Special Items | | |
| Performance Materials | \$ 45.9 | \$ 27.2 |
| Electronic Materials | 14.6 | 22.8 |
| Precision Optics | 2.6 | 3.6 |
| Other | (7.6) | (6.6) |
| Total | <u>\$ 55.5</u> | <u>\$ 47.0</u> |

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.

Reconciliation for Non-GAAP Measures (Cont.)

| (\$ in millions) | Q2 2023 | Q2 2022 | Q2 2023 TTM | Q2 2022 TTM |
|---|----------------|----------------|-----------------|-----------------|
| GAAP as Reported | | | | |
| Net income | \$ 24.1 | \$ 23.3 | \$ 98.4 | \$ 75.1 |
| Income tax expense (benefit) | 4.3 | 5.1 | 17.9 | 6.2 |
| Interest expense | 7.7 | 4.7 | 28.6 | 11.7 |
| Depreciation, depletion, and amortization | 16.3 | 12.9 | 58.8 | 51.2 |
| Consolidated EBITDA | \$ 52.4 | \$ 46.0 | \$ 203.7 | \$ 144.2 |
| Special Items | | | | |
| Restructuring and cost reduction | \$ 3.1 | \$ — | \$ 4.1 | \$ 1.1 |
| Merger and acquisition costs | — | 1.0 | 1.9 | 27.3 |
| Pension settlement | | | (0.5) | |
| Additional start-up resources and scrap | — | — | 4.1 | |
| Total Special Items | 3.1 | 1.0 | 9.6 | 28.4 |
| Adjusted EBITDA | \$ 55.5 | \$ 47.0 | \$ 213.3 | \$ 172.6 |

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.

Reconciliation for Non-GAAP Measures (Cont.)

Performance Materials

| (Millions) | Second Quarter Ended | | | |
|----------------------------------|----------------------|---------|--------------|---------|
| | June 30, 2023 | % of VA | July 1, 2022 | % of VA |
| Net sales | \$ 182.8 | | \$ 154.9 | |
| Pass-through metal cost | 17.2 | | 20.9 | |
| Value-added sales | 165.6 | | \$ 134.0 | |
| EBITDA | \$ 44.9 | 27.1 % | \$ 27.2 | 20.3 % |
| Restructuring and cost reduction | 1.0 | 0.6 % | — | — % |
| Merger and acquisition costs | — | — % | — | — % |
| Adjusted EBITDA | \$ 45.9 | 27.7 % | \$ 27.2 | 20.3 % |

Precision Optics

| (Millions) | Second Quarter Ended | | | |
|----------------------------------|----------------------|---------|--------------|---------|
| | June 30, 2023 | % of VA | July 1, 2022 | % of VA |
| Net sales | \$ 25.1 | | \$ 29.4 | |
| Pass-through metal cost | — | | — | |
| Value-added sales | \$ 25.1 | | \$ 29.4 | |
| EBITDA | \$ 1.7 | 6.8 % | \$ 3.5 | 11.9 % |
| Restructuring and cost reduction | 0.9 | 3.6 % | — | — % |
| Merger and acquisition costs | — | — % | 0.1 | 0.3 % |
| Adjusted EBITDA | \$ 2.6 | 10.4 % | \$ 3.6 | 12.2 % |

Electronic Materials

| (Millions) | Second Quarter Ended | | | |
|----------------------------------|----------------------|---------|--------------|---------|
| | June 30, 2023 | % of VA | July 1, 2022 | % of VA |
| Net sales | \$ 190.7 | | \$ 261.0 | |
| Pass-through metal cost | 113.1 | | 155.2 | |
| Value-added sales | \$ 77.6 | | \$ 105.8 | |
| EBITDA | \$ 13.4 | 17.3 % | \$ 22.4 | 21.2 % |
| Restructuring and cost reduction | 1.2 | 1.5 % | — | — % |
| Merger and acquisition costs | — | — % | 0.4 | 0.4 % |
| Adjusted EBITDA | \$ 14.6 | 18.8 % | \$ 22.8 | 21.6 % |

Other

| (Millions) | Second Quarter Ended | | | |
|----------------------------------|----------------------|---------|--------------|---------|
| | June 30, 2023 | % of VA | July 1, 2022 | % of VA |
| EBITDA | \$ (7.6) | | \$ (7.1) | |
| Restructuring and cost reduction | — | | — | |
| Merger and acquisition costs | — | | 0.5 | |
| Adjusted EBITDA | \$ (7.6) | | \$ (6.6) | |

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.

Reconciliation for Non-GAAP Measures (Cont.)

| (Millions) | Second Quarter Ended | | | |
|--|----------------------|----------------|--------------|----------------|
| | June 30, 2023 | Diluted EPS | July 1, 2022 | Diluted EPS |
| Net income and EPS | \$ 24.1 | \$ 1.15 | \$ 23.3 | \$ 1.12 |
| Special items | | | | |
| Restructuring and cost reduction | \$ 3.1 | | \$ — | |
| Merger and acquisition costs | — | | 1.0 | |
| Provision for income taxes ⁽¹⁾ | (0.8) | | (0.3) | |
| Total special items | 2.3 | 0.12 | 0.7 | 0.04 |
| Adjusted net income and adjusted EPS | \$ 26.4 | \$ 1.27 | \$ 24.0 | \$ 1.16 |
| Acquisition amortization (net of tax) | 2.5 | 0.11 | 2.4 | 0.12 |
| Adjusted net income and adjusted EPS excl. amortization | \$ 28.9 | \$ 1.38 | \$ 26.4 | \$ 1.28 |

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.