Transcript of
Materion Corporation
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Participants

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Presentation

Operator
Greetings and welcome to the Materion Third Quarter 2023 Earnings Call. At this time, all participants are on a listen-only mode, and a question-and-answer session will follow with a formal presentation. [Operator Instructions] Please note, this conference is being recorded.

I will now turn the conference over to your host, Kyle Kelleher, Manager, Investor Relations. Sir, you may begin.

Kyle Kelleher - Manager, Investor Relations, Materion Corporation
Good morning and thank you for joining us on our third quarter 2023 earnings conference call. This is Kyle Kelleher, Manager, Investor Relations. 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 is Jugal Vijayvargiya, President and Chief Executive Officer, and Shelly Chadwick, Vice President and Chief Financial Officer. Our format for today's conference call is as follows. Jugal will provide opening comments on the quarter 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 4 through 9 in this morning's press release. The adjustments are made in the prior year period for comparative purposes and remove special items, non-cash charges and certain discrete income tax adjustments.

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

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Thanks, Kyle and welcome, everyone. It's great to be with you today. Our record performance in the third quarter is a testament to the strength of our company, the effectiveness of our strategy, and the talent of our people. We are successfully leveraging our diverse portfolio and unique technical capabilities to capitalize on new organic growth opportunities.

In addition, our global team continues to raise the bar for operational excellence, delivering for our customers and executing on our outgrowth initiatives, while pursuing targeted cost improvements and driving improved performance across our plants. These strengths are offsetting the impact of software demand conditions in the semiconductor and industrial end markets and enabling Materion to deliver in a challenging environment.

The third quarter represented our 12th consecutive quarter of year-over-year earnings growth, achieving record earnings of $1.51 per share. It was also the second consecutive quarter outperforming our adjusted EBITDA margin target of 20%. Excluding the continued softness in the semiconductor market, our value-added sales were up 8%, which speaks to the substantial diversity of our portfolio and the significance of the contributions from our organic pipeline.

Strength in aerospace, including the emerging space market, defense, telecom and data center and meaningful contributions from precision clad strip drove the differentiated performance. We continue to benefit from improved aerospace build rates, and more importantly, are increasing content per plane. In addition, we're gaining significant content in the emerging space market.

For telecom and data center, increasing 5G adoption is fueling our growth in the undersea cable market. As for the semiconductor market, softness has persisted into the third quarter, pushing the recovery out beyond our previous expectations as we continue to see inventory correction in memory, logic and communication devices.

We believe the third quarter was the low point for software semi demand and remain encouraged by some positive signs of recovery we've seen in the broader industry, as well as some modest recovery in our order rates. Our expectation is that we will start to see gradual improvement in demand in the fourth quarter with a broader recovery next year.

As we have said before, we are extremely excited about opportunity in the semiconductor market, including our expanding content per chip. We also recognize that semi cycles can lead to strong upturns and we remain well positioned to support that volume as it returns.

Leveraging our diverse portfolio, our team continues to unlock new organic growth opportunities aligned with global megatrends. One such trend is the emerging space market that is driving significant new opportunities for us. Our sales into this growing market have more than tripled in the last two years. Let me highlight a few of the exciting opportunities.

To start, we recently secured a third order to supply critical materials for space propulsion systems, valued $13 million. That brings the total amount awarded to $35 million for the past year. Our partnership with this important customer is strengthening and we see the potential for additional orders in the coming year.

We're also projecting that our ToughMet product sales into the space market will double to approximately $10 million next year. We have new customer commitments for this important material, as the high strength and corrosion-resistant properties have proven to be ideal for next-generation space applications, which require robust performance in exceptionally harsh conditions.

Growth in this market is also benefiting our Precision Optics business, which has secured approximately $8 million in new contracts across both the space and defense markets. Our optical components serve as key enabling technologies essential for space-based instrumentation and imaging across various applications. We continue to be an important supplier to critical defense programs, bringing our unique expertise and technically demanding materials.

We were recently notified of a new $10 million award to supply critical materials for a space-related defense program. I'm also pleased to announce that we have received $5 million investment from the US Air Force Research Laboratory that will enable us to accelerate the development of our additive manufacturing capabilities, also known as 3D printing for beryllium and aluminum beryllium alloys.

Additive manufacturing capabilities will enable significant advantages in the production and performance of optics structures, guidance systems and thermal management applications used in defense and aerospace markets. This investment will propel us into a new phase of development that will accelerate our ability to operationalize these specialized manufacturing techniques.

I'm very proud of our team's performance, and I remain confident in our ability to execute and deliver another year of record results. With the wins we've achieved through our diverse portfolio, our uniquely relevant technical capabilities and our team's unrelenting focus on operational excellence, we are continuing to build on the earnings power of Materion.

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'll reference the slides posted on our website this morning, starting on Slide 10. As Jugal outlined, we delivered record earnings in the third quarter.

Value-added sales which excluded the impact of pass-through precious metal costs were $270.5 million for the quarter, down 5% from prior year, but up sequentially. Excluding the semiconductor market softness, the remainder of the business was up approximately 8% year-on-year.

This growth was driven by strong demand in the aerospace and defense, and telecom and data center end markets, along with meaningful contribution from the precision clad strip business. We delivered adjusted earnings of $1.51 per share in the third quarter, a quarterly record for the company and up 15% as compared to the prior year.

Moving to Slide 11, adjusted EBITDA in the quarter was $55.4 million or 20.5% of value-added sales, up 14% from the prior year with margin expansion of 330 basis points. This significant increase was driven by favorable pricing and mix, as well as strong operational performance partially offset by the slight decrease in volume. Our targeted cost improvement initiative also contributed to the step up in earnings, outperforming our mid-term EBITDA margin target of 20% for the second straight quarter.

Moving to Slide 12, let me review the third quarter performance by business segments. Starting with our Performance Materials business, the value-added sales were $168.9 million, up 13% compared to prior year. Strong results in aerospace, consumer electronics, telecom and data center and precision clad strip drove this increase. EBITDA excluding special items was $46.5 million or 27.5% of value-added sales, up 41% when compared to $33 million in the third quarter of 2022, with an impressive 530 basis points of margin expansion.

This growth was primary due to higher volume from our outgrowth initiatives, favorable pricing and a strong mix, combined with benefits from our operational excellence initiatives. Moving to the outlook, we expect a strong fourth quarter led by aerospace, defense and telecom and data center, with continued contributions from precision clad strip.

Next, turning to Electronic Materials on Slide 13. Value-added sales were $75.5 million, down 29% compared to the prior year, resulting from the slowdown in the semiconductor market, where our customers continue their inventory correction. EBITDA excluding special items was $13 million or 17.2% of value-added sales in the quarter. Despite this year-over-year decline, we saw 110 basis points of margin improvement compared to prior year.

This was driven by a favorable mix, plus the benefit of our targeted cost reduction initiatives, which do include some short-term action. As we look forward to the fourth quarter, we expect incremental improvement in semiconductor sales, as well as the continued benefit from the cost improvement initiatives we've implemented.

Finally, turning to the Precision Optics segment on Slide 14, value-added sales were $26.1 million, down 7% compared to the prior year. This decrease was mainly driven by the reduced

TCR filter demand, the discontinued product application and general softening in the consumer electronics market slightly offset by strength in defense.

EBITDA excluding special items was $3.4 million or 13% valued-added sales. The decrease in volume was a meaningful driver of this year-over-year decline, offset by positive mix and the benefit of our targeted cost improvement initiatives. From a sequential standpoint, we saw EBITDA growth along with 260 basis points of margin expansion. Looking out to the fourth quarter, we expect new opportunities across defense, space and automotive to contribute to top line growth.

Moving now to cash, debt and liquidity on Slide 15, we ended the quarter with a net debt position of approximately $445 million and $151 million of available capacity on the company's existing credit facility. Our leverage at 2 times remained slightly below the midpoint of our targeted range.

Lastly, let me transition to Slide 16 to address the full year outlook. With accelerating contributions from our organic pipeline, our strong operational performance and the continued benefit of our cost reduction action, we remain confident in our ability to execute and finish out another record year.

With that, we are affirming the midpoint of our prior guide at $5.80 per share an increase of 10% from 2022. We look forward to closing 2023 on a high note, delivering another year of record result and long-term sustainable value creation for our stakeholders.

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

Operator
Thank you. At this time, we will be conducting a question-and-answer session. [Operator Instructions] Thank you. Our first question is coming from Dan Moore with CJS Securities. Your line is live.

Q: Hi, good morning. It's Pete Lukas for Dan. First one for me. How is the clad strip project performing relative to your expectations? And has there been any change in timing regarded expected ramp in phase two?

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation
Yeah, let me start with the second part first here. So, our timing is in line with what we've communicated before, which is that, we expect to have a ramp starting at the end of '24 low volume ramp and then a full volume production in the '25 timeframe. Our equipment installation and validation will go on over the next year or so as we go through getting that qualified.

In terms of our current program. I would say, it's going really well. We are producing at our new facility. We produced at the legacy facility as well. And it's delivering to our expectations. So with the top line and the bottom line are contributing as we had planned and that's reflected in our results.

Q: Very helpful. Thanks. And then looking at the various program awards, you noted, I think it was on Slide 5 of the presentation. When do you expect to begin layering in revenue for each of these awards? And do you expect full – to record the full amounts listed in fiscal year '24? Or are those likely spread over the next one to two years?

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation
Yeah, well, first of all, I just want to say, I think it's just another testament to our team delivering fantastic organic growth opportunities as you know that we've done that over the last several years, and our team just continues to bring in new opportunities. Let me highlight on a few of those that are on this page.

So, first of all, the $13 million order to supply critical materials for the space propulsion systems, that we expect to be in the '24 timeframe, we announced actually a phase one and phase two of that, one was $10 million and another one was $12 million earlier, and those are being delivered to the customer as we speak.

So, this $13 million is another order coming to a total of $35 million with this customer. So this opportunity is becoming a really great opportunity for us and I would expect more orders in the new year for '24 and perhaps '25 timeframe. So, very much looking forward to that.

When I look at the Precision Optics contracts, the $8 million for space and defense, those I would see as multiyear contracts in the '24-'25 timeframe. So very much looking forward to those. The ToughMet materials for space applications, as you know, ToughMet is a very, very important material for us.

We have number of applications in commercial, aerospace, oil and gas et cetera for that material. And this material has been now adopted into the space application. So just based on the qualities that it offers. We have been supplying that material this year. As you can see from the chart, that's roughly about $5 million worth of sales this year. And we expect to double those into '24. So, an incremental $5 million into the 2024 timeframe.

The notification that we speak of, of the $10 million of the critical materials for the defense related to applications, that we expect this year partly and then into next year. So, we're very much looking forward to that, that just builds on to our capabilities and materials expertise that we provide for defense applications.

The nice thing about this, this is a space-related application for defense. And then, the $5 million investment. This is an award – an investment award that we are receiving from the US Air Force Space for additive manufacturing. This will be done over a two-year time period, we've had a number of different initiatives that we've taken ourselves on additive manufacturing over the last three to four years.

We've invested quite a bit of money ourselves in our facility. And this award just will accelerate our development regarding beryllium and aluminum beryllium-based materials for additive manufacturing. So, we're very much looking forward to that over the next two years. So great opportunities to continue to drive organic growth for our company.

Q: Extremely helpful. Thanks. And just finish it with one housekeeping question here. What tax rate is assumed for your Q4 implied EPS guidance? And what's a good rate as we look out to fiscal '24?

Shelly Chadwick - Vice President and Chief Financial Officer, Materion Corporation
Yeah, that's a great question. Thanks for asking it. We saw the benefit of a reduction in our year-to-date and our effective tax rate, which we were really pleased with, on top of already strong operating results, we saw the tax rate come down by a combination of things. The first being, the production credit.

The production credit has gone – our estimate of the production credit has increased slightly due to the increase in the pure beryllium-related products that we have been selling. We talked a lot about a strong mix, some of that is from our pure beryllium-related products. Those then drive the production credit, and that's tax free. So all of that income we're able to take tax free.

In addition, we're seeing higher foreign tax credits based on the global mix of earnings. So, in a sense, we took our tax rate down from call it mid-16s to roughly 15, and in Q4, what I've assumed is 15.5, and we'll see how the year shakes out once we have actuals.

Q: Great, thank you. I'll jump back in the queue.

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

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation
Thank you.

Operator
Thank you. Our next question is coming from Mike Harrison with Seaport Research Partners. Your line is live.

Q: Hi, good morning.

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation
Hey, good morning, Mike –

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

Q: I was wondering if we can talk a little bit about the Performance Materials' margin and some of the sources of strength that I know in your comments you mentioned that mix was particularly strong. And then Shelly, you just mentioned here that the production credit has increased, which I believe flows through that segment level EBITDA line. But maybe just talk in a little more detail on the puts and takes that we should be thinking about as we look at that margin in the PM segment for Q4 and as we get into 2024?

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation
Yeah. Mike, let me start on that and then Shelly can jump in, especially when it comes to the production credit and things. So I think that business has you know over the last several quarters has continued to perform well.

One of the things that we are – continue to be very focused on for their business is value-based pricing, making sure that we're getting the right price for the value that we're providing to our customers. It's an important part of our initiative companywide. But I would say, particularly for that business, we consider to do that.

And then certainly mix has been a very important factor as well. We continue to drive more focus on products that generate more value for us, frankly than products that don't. And so we're making sure that we're utilizing our assets to drive the best mix possible. And that's also helping us, of course, on operational excellence.

Shelly Chadwick - Vice President and Chief Financial Officer, Materion Corporation
Yeah, just a couple other things. The plants have been running really well. And so, when our plants are running well, we get better operating performance. And that's helped the mix and the margin as well. Jugal talked about mix and we've highlighted space and defense this quarter. And that is definitely a mix up for us and we'll see that last into the fourth quarter.

And then the production credit as we just talked about, we previously said roughly $8 million for the year, now we're looking at roughly $10 million for the year. So you think about $3 million in each of the last two quarters of the year. So, really a nice benefit from that business.

Q: All right. And then in terms of the Electronic Materials business, it seems like kind of the pace of recovery here is a little bit slower than we might have hoped. Could you give us a little more color on what you're hearing from your customers in both the logic and memory side about their production rates as we get into year end and start 2024?

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation
Yeah as you know, Mike, we've all been waiting for this inventory correction to start to slow down so that the rates – the build rates can start to pick back up. But unfortunately, the inventory correction and our customers has taken a little bit longer than I think they had all estimated that inventory correction, of course or the slowdown of that translates into slower orders for us.

Our expectation was that maybe towards the end of Q3, we would start to see a little bit of recovery. I think that expectation is now shifted to Q4, we're starting to see as we're listening to some of the earnings calls from our customers, some small positive incremental benefits that they're highlighting. We're also starting to hear some things from our customers directly. Some of our orders, so depending on the semiconductor types order rates, are starting to see a little bit of a uptick maybe for Q4.

So, I would say, it seems like Q3 is the low point and Q4 would be a small incremental uptick for us. And I think that that goes in line with what the semi companies are saying as well. So that's

just kind of how we see it. This is a – as you know, this is an extremely, extremely good business for us. It's roughly a third of our company, and we're very much looking forward to the uptick, we're prepared to address the uptick. We've made sure that our workforce and our materials, our inventory, everything is ready to go as the uptick starts. So, we're very much looking forward to that.

Q: Well, hopefully that comes sooner than later. Last question I have is regarding some of your costs actions that you've been taking this year. Just curious, are most of these complete? Or should we think of Q4 is maybe showing some additional benefits? And I guess, if you can maybe help us quantify or better think about what portion is structural cost takeout and what portion is more temporary or a reduction in discretionary spend that they could come back next year? Thanks.

Shelly Chadwick - Vice President and Chief Financial Officer, Materion Corporation
Yeah, that's a great question, Mike. And, we look at it that way too the way you're talking about it, meaning, what are the permanent reductions that we're making to improve our business long-term? What are the things that are temporary to address the current actions?

And that really breaks down into two buckets, some of that's headcount-related on the temporary side, but some of that too is just tightening the belts a little bit and controlling costs, until we see the market pick up. So, I would say, it's roughly call it 60:40 in the permanent to temporary, and of the temporary action probably, I don't know, three quarters, one quarter in terms of the people-related versus belt tightening, if that makes sense.

Q: Sure, that's helpful. And I guess, just to my question about Q4 and the –

Q: Benefits being greater than Q3?

Shelly Chadwick – Vice President and Chief Financial Officer, Materion Corporation
Yeah. So we're always looking at the organization to see what we can do to improve, I would say, largely, the reductions have been done and we saw most of that impact in Q3. There'll be a little bit that comes into Q4, so I wouldn't see a meaningful step change in Q4.

Q: Perfect. Thank you very much.

Shelly Chadwick – Vice President and Chief Financial Officer, Materion Corporation
Thank you.

Operator
Thank you. Our next question is coming from Phil Gibbs with KeyBanc. Your line is live.

Shelly Chadwick – Vice President and Chief Financial Officer, Materion Corporation
Hey, Phil.

Q: Hey, good morning.

Jugal Vijayvargiya – President and Chief Executive Officer, Materion Corporation
Good morning, Phil –

Q: Good morning. Regarding clad phase two, when do you actually start commissioning the plant for initial trials?

Jugal Vijayvargiya – President and Chief Executive Officer, Materion Corporation
Yeah, I would expect that, Phil, that probably towards the end of Q1, we would start to do some trials and start to produce material that we can share with our customer that they would go ahead and start to evaluate. And then, in Q2, Q3, just continue to do that as well as start to do our own low volume production just to get the equipment tested out. And then like we've said in Q4, have some low volume production of that same level of production that we would do.

Q: And this is going into the existing facility that phase one is on?

Jugal Vijayvargiya – President and Chief Executive Officer, Materion Corporation
Yeah, exactly. This is in the same building, same facility. The great thing about it is, we're able to leverage the expertise of our folks that have been working this program now for the last couple of years. Of course, the workforce that is going to be needed, will be mostly new, but many of our engineering, development, supply chain, overall general management, those resources will be – resources that have been with the plant for the last couple of years.

Q: Okay. And then you had a lot of color and commentary on the space and defense awards which was great. You highlighted that well in your presentation. But just to be clear, you are saying that 2024 is going to have nicely higher value-added sales in that bucket relative to 2023 as you phased in some of these awards.

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation
Yeah, well, I think space has been an important market for us. We highlighted it about a year or so ago, I think in our calls as well. I would say, step one, I mean, over the last couple of years, we've tripled our sales into the space market, which is fantastic. And then I would see incremental benefits going into '24 as well.

I highlighted this one very important customer, this $13 million order for example, which I expect to be in the '24 timeframe. And it's our expectation as we continue to work with this customer that we will secure additional orders. Of course, those are not secured yet, but, we're going to continue to work with our customer to do that. And then we'll continue to have other materials that we can try to make sure that we get into this market. So, this is a high growth almost kind of like a megatrend type of a market for us and one that I can tell you really across all three of our businesses, we're very, very much focused on.

Q: Thank you. And then just lastly in terms of net working capital, what are you anticipating for the fourth quarter? Thanks.

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

Yeah, I'll take that. So one of the things that Jugal mentioned, was that we're ready for the semi upturn and you might see in our results that inventories up a little bit. We've taken some raw material and pushed that through to whip to be ready, so that when we get customer orders, we're not starting from raw material base.

So, we built a little bit of inventory there. And I expect we'll hold that through the end of the year, AR has been a bit of a bright spot and I expect that will be a cash inflow as we finish out the year in Q4 and AP was a negative for the quarter. So I expect we'll get some of that back in Q4 as well. So, should be a slight positive but not meaningfully bringing down inventory before the end of the year.

Q: Thank you.

Operator
Thank you. Our next question is coming from David Silver with C.L. King. Your line is live.

Q: Yeah, good morning. Thank you –

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation
Good morning, David.

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

Q: Good morning. So several questions. And I'm going to apologize in advance, the wording of these are probably alternatively going to sound like hopelessly naive or I don't know, a little snide or whatever. But that's not my intention.

But, first with Performance Materials. I mean, it seems like their spin, not just good results this year, but an accelerating book of business or successful contract wins. Couple of angles on this, but firstly, do you have a traditional backlog figure for Performance Materials? And maybe, how is it looking now compared to let's say, maybe the beginning of the year or a year ago, however, you typically track it?

And then, again, a naive question warning, but what would you attribute your seemingly greater success in these new contract wins, particularly, I guess, aerospace and defense? You've always had a commanding position, let's say, in beryllium in this area. So, has there been a shift maybe in your value proposition or the way you go to market?

But what would you say is the mix of factors that's leading to the record performance, but that's really the symptom of the cause, which is you're becoming a preferred supplier for these high value opportunities. So, longwinded question, but maybe just the mix of factors that are at play here and – I'll just stop there. But yeah, the mix of factors you would say? Thank you.

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Yeah, well, first of all, I think our Performance Materials segment like you have indicated, has done really, really well, that not only just in the last year, but I think if you look back five, six years, and what the business has done in terms of the growth, the top line growth of the business has achieved as well as the bottom line performance, the business has done quite well.

When you think about, I think, the parts about the new business, so let's just talk about that first, because that you highlighted, what's different. I would say, I think our team is doing a really, really good job of getting the marketing of our materials out, the great performance I think of the materials that we have the material science expertise that we have, so our technical sales, our business development efforts that we have, I think across these markets, particularly. I would say, the growth markets, so like for example, space, I mean, so just, we're highlighting space today, so I'll talk about that. But, of course, that's, by the way, this applies to all the markets. But, understanding our materials, getting our materials out there, helping the customers understand the value of our materials, and then providing, great value propositions at the end of the day. And I think the team has just done a wonderful job of that. And that I think has helped tremendously.

So our teams have been focused on understanding what the needs are for the customers and then finding the right solutions for those needs. And they've just done a fantastic job of that. Which, by the way, kind of leads directly to your question in the backlog. We do look at backlog, it's one of the metrics that we look at, but we look at many different metrics, as you could imagine, from our growth perspective, there's always puts and takes on backlogs.

Some of the markets are down like industrial, which we know, space is a market that's up. There's also – a backlog also has a key component of backlog is lead times. If you go back to kind of the '21-'22 timeframes. I mean, our lead times for some of our materials were extremely long as we were ramping up after the COVID year of 2020.

Getting the workforce in, our lead times have improved significantly, which has – as you can imagine, has a negative impact on backlog. But that doesn't mean that our business is actually declining. I mean, as you've seen, our sales are up. So, we look at a number of different metrics, and backlog is one of the metrics that we look at. But, in general, I mean, the teams have been driving more new opportunities, and in really all the markets using our superior materials.

Q: Okay, thank you. My next question would be on Electronic Materials, and you have commented on the lingering, I guess, customer inventory issues. I was hoping you could maybe talk about it from a somewhat broader perspective. So, currently, you've been spending some discretionary capital to build out your capabilities in that area in Milwaukee.

Pardon me, and in Newton. And, I think you had some expectations for the demand levels for when that new capability is available. And I'm just wondering if you could maybe give us your current thinking about the transition period here, right, the – maybe the sluggish customer demand which has persisted a little bit longer maybe than initially thought?

But then you also have these new capabilities coming up. So, is it the case where there might be a little bit of a gap when those new units turn on? Or is it the kind of case where the products and

services that the newer capabilities are designed to serve are really maybe next-generation or not? That the market end markets or the applications don't necessarily overlap with where the softness is now. So, longwinded question, but maybe how do you think about this current phase of softer demand in the context of the longer-term growth projections that you are operating the business under? Thank you.

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Yeah. So, if you look at our two facilities that you mentioned, where we're adding these new capabilities, both in Milwaukee and Newton, our expectation to get the additional volume in place was going to be the second half of 2024. By the time, the facilities and the equipment was procured, and then we did installation and got the production going.

So, I think the timing is actually going to work out just perfect, because the recovery starts to happen here in a little bit in Q4, but then into the first half of next year, and then a much greater recovery in the back half of '24 and then into '25, I think we're going to be extremely well positioned to be able to deliver the emerging ALD products that our customers are needing for memory applications, in particular, out of our Milwaukee facility, and then, the logic and memory products out of our Newton facility.

So, I think the slowdown is actually, in some respects, you can say, helped us to put our capacities in place, because what was happening in '21 and '22, is, we were running all of our plants basically full. And at the same time, we were trying to figure out how to put these additional capacities in place.

The slowdown has given us the opportunity to allocate the resources in the right way to put the capacities in place in Milwaukee and Newton, so that we can have them ready in the back half of '24 and into '25, as the recovery is going to come in. So, in some respects, I mean it's interesting. The slowdown, I think has helped us to make sure we're getting the capacity in in the right way. But – and the timing of that I don't think is impacted at all, because it actually lines up with the recovery timing of the semi cycle.

Q: Sorry, thank you for that. That was great color. One more maybe from a resources or budgeting perspective. But, I always think a lot of – October is when a lot of companies do the budgeting for the coming year or two. And, on this call and the previous ones, I mean, you've outlined a number of kind of incremental new initiatives today was space and defense a little bit earlier. Of course, there's the multistep expansion in Electronic Materials, and I did notice a new project in Precision Optics.

So, if I was a betting man, I would say that, the $95 million CapEx for this year would have to rise for next year. And then, even beyond just CapEx, I'm thinking of, R&D resources, technical selling, which you cited as an aspect of your success in Performance Materials. But just in terms of overall resourcing, what are you thinking about for, let's say, 2024 and 2025? So, dollars, people, I guess, R&D, technological expertise what's on tap for the next year or two as you're planning out things now?

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Yeah. Well, first of all, you're right on the timing. We are starting to think about that and starting to put that together. And as you know, we'll be talking about that to you and to everybody in mid-February when we come out with our guide and our plan for 2024. So I'm very much looking forward to that, because I think it's going to be another exciting year for us, along with '25, and so on. So, all these opportunities that you've indicated, we expect to play out in '24, '25, '26 timeframe.

With regard to our investments, I mean, we've never been shy to invest, as you know. This is a fantastic opportunity for us to continue to invest in our business. And we've done that over the last number of years and we're going to continue to do that, whether it's R&D resources, whether it's CapEx resources or any type of M&A, that may come up that fits exactly the way we would like in our business.

So, we're going to continue to look at that, even when you look at, for example, R&D this year, even though the markets are significantly slower, I mean, we're not slowing down on R&D, we are still investing in R&D. And it's our expectation that we'll continue to do that. And we'll continue to do that on the CapEx side as well. So, I'm very much looking forward to sharing with you guys our plans as we put them together.

Q: Okay, great. I'll get back in the queue. Thank you very much.

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation
Thanks, David.

Operator
Thank you. Our next question is coming from Dave Storms with Stonegate Capital Markets. Your line is live.

Q: Good morning.

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

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation
Good morning, Dave.

Q: Good morning. So, just want to touch on one of your end markets. I know telecom is probably one of your smallest end markets. But it just seems to keep growing. I was wondering if you could just talk to us a little bit about what your customer acquisition environment looks like here? And, if there's going to be any meaningful impact from that going forward?

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation
Yeah. Well, telecom and data center, you're right, it is one of the smaller markets, but it is a market that has nine consecutive quarters of growth. And we're very much looking forward to continued growth in this area. And as you know, bandwidth requirements continue to increase.

Data center requirements, cloud services requirements continue to increase and that's where this market for us is very important and then we continue to supply material to this.

So, we expect these areas to continue to increase over the next three to five to seven years. And I think we're very well positioned with our materials. The undersea cable market is a key area for us, where we provide beryllium-based materials and I think it's going to continue to be a strong market for us.

Q: That's very helpful. And then just one more for me, if I could. What do you see in on the labor front? There's been a lot in the news about the UAW labor negotiations. It sounds like your shops are running well now. But if you needed to scale up at any point, what is your confidence that you could get more labor in the door if you needed that?

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation
I think our teams did a fantastic job getting labor into our factories in the '21 timeframe as the ramp up happened, and I would expect that they're going to do a really good job again in '24, as the semi recovery happens.

I think one of the things that we've stayed focused on is, making sure we're retaining as much of the labor as possible, so that we can support the uptick in the '24 timeframe. And then, of course, if there's additional workforce that's needed, we'll rely on our HR department to bring in the folks just like they did in '21 and '22. So I'm very confident that we're going to be able to support any type of an uptick.

Q: That's very helpful. Thank you for taking my questions, and good luck in the fourth quarter.

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

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation
Thanks.

Operator
Thank you. We have reached the end of our question-and-answer session. So I will now turn the call back over to Kyle Kelleher for his closing remarks.

Kyle Kelleher - Manager, Investor Relations, Materion Corporation
Thank you. This concludes our third 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)-383-4931. Thank you again.

Operator
Thank you. This concludes today's conference and you may disconnect your lines at this time. And we thank you for your participation.

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