

***Transcript of
Materion Corp.
Third Quarter 2019 Earnings
October 24, 2019***

Participants

Steve Shamrock - Vice President, Corporate Controller & Investor Relations
Jugal Vijayvargiya - President & Chief Executive Officer
Joe Kelley - Vice President & Chief Financial Officer

Analysts

Edward Marshall - Sidoti
Marco Rodriguez - Stonegate Capital
Phil Gibbs - KeyBanc

Presentation

Operator

Greetings and welcome to the Materion Corporation Third Quarter 2019 Earnings Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator instructions]. As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Steve Shamrock, Vice President, Corporate Controller and Investor Relations. Thank you, sir. You may begin.

Steve Shamrock - Vice President, Corporate Controller & Investor Relations

Good morning. This is Steve Shamrock, Vice President, Corporate Controller and Investor Relations. With me today is Jugal Vijayvargiya, President and Chief Executive Officer, and Joe Kelley, Vice President and Chief Financial Officer.

Our format for today's conference call is as follows. Jugal Vijayvargiya will provide opening comments on the quarter and an update on key initiatives. Following Jugal, Joe Kelley will review detailed financial results for the quarter, and then we will open up the call for questions.

Before we begin, let me remind investors that any forward-looking statements made in this announcement, including those in the outlook section and during the question-and-answer portion, are based on current expectations. The Company's actual future 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 with regard to operating profit, net income, and earnings per share reflect the adjusted GAAP numbers shown in attachment number five in this morning's press release. The adjustments are made in both the current year and prior year periods for comparative purposes and remove certain non-recurring special items for asset impairments, pension curtailment, cost reduction initiatives, and certain income tax adjustments.

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

Jugal Vijayvargiya - President & Chief Executive Officer

Thanks, Steve. Welcome, everyone and thanks for joining the call. I'm once again very pleased to report record financial results for the quarter. We achieved third quarter records for value-added sales, operating profit, operating margin and earnings per share and have now delivered 11 consecutive quarters of both top and bottom line growth. We are continuing to execute on our multi-pillar growth strategy to deliver results today and position the company for sustainable long-term profitable growth.

Let me highlight a couple of developments from the third quarter in support of our continued transformation. In 2018 the US Department of Interior, in response to an executive order, listed beryllium as one of 35 critical minerals. Today, I'm pleased to announce the award of a US government contract to work in partnership with the Department of Defense in upgrading the capabilities of our high-purity beryllium metal processing in Elmore, Ohio. As you may be aware, we previously partnered with the US government's Defense Production Act Title III program to construct the high-purity beryllium processing plant at the Elmore facility. This latest project will increase capabilities and efficiencies at the only beryllium metal production facility in the western hemisphere, enabling us to better serve both the US government and global commercial customers.

The US Department of Interior designation and our partnership with the Department of Defense illustrate the strategic importance of our beryllium assets and will strengthen our position as the only fully-integrated beryllium supplier in the world.

On the organizational front, we have continued to strengthen our global team with top industry talent. I am pleased to welcome Leo Linehan as President of Advanced Materials business segment. Leo brings over 30 years of experience building high-performing organizations within the microelectronics and specialty chemicals industries with significant experiences at Rohm and Haas, Dow, IBM, OM Group and most recently at Element Solutions. Leo's extensive experience in Asia establishing and growing businesses will be an important enabler to our global growth strategy.

Now, let me share some comments on Q4 and the full year. We've had tremendous success offsetting the macro headwinds. As we look to Q4 the effect of these headwinds is negatively impacting order entry particularly in the automotive, telecom and industrial end markets. We see increasing softness in North America region with continued pressure in China. We're taking all necessary short-term actions and remain focused on executing our One Materion multi-pillar strategy to deliver long-term profitable growth.

With the performance delivered through Q3 and the expected performance in Q4, we are narrowing the full year guidance to \$3.15 to \$3.20, which represents a 33% year-over-year improvement.

Now, I will turn the call over to Joe who will cover the financials.

Joe Kelley - Vice President & Chief Financial Officer

Thank you, Jugal, and welcome to everyone joining us on the call today. During my comments, I will cover third quarter 2019 financial highlights, review profitability by segment, provide brief comments on the balance sheet, cash flow, and modeling assumptions, and finally, cover the earnings outlook for 2019. Following my remarks, we will open the line for questions.

I am pleased to report strong third quarter 2019 financial results, which represent the 11th consecutive quarter with year-over-year growth in both value-added sales and adjusted operating profit. The third quarter 2019 value-added sales, which exclude the impact of pass-through metal costs, were \$188.6 million, up 4% versus the prior year third quarter. The increase was driven by end market strength and new application wins in the aerospace and defense market plus the timing of beryllium hydroxide shipments. For those investors who have followed the

company you understand the timing of large beryllium defense orders and hydroxide shipments can be inconsistent quarter-to-quarter.

In the third quarter of 2019, we saw favorable movement for both items. Offsetting these gains was softness in the automotive and telecom and data center end markets. Automotive end market sales were down due to reduced demand and inventory adjustments, particularly in Europe and China. China tariffs and company-specific selling bands were the primary contributors to the decline in value-added sales into the telecom and data center end market.

Gross profit margin was \$64.9 million in the third quarter, consistent with the prior year third quarter. Expressed as a percent of value-added sales, gross margin was 34% in the quarter. Benefits from value-added sales growth were offset by unfavorable sales mix between segments.

Selling, general, and administrative expenses totaled \$36.3 million, or 19% of value-added sales, an improvement from the prior year amount and percentage. The decrease resulted from a combination of reduced core spending and lower variable expenses, offset partially by strategic investments in commercial resources to deliver sustainable profitable growth.

R&D expense totaled \$5.3 million for the quarter, a 24% increase over the prior year, as we have increased investments in new product development to position the Company for sustained long-term profitable growth.

During the quarter, the company took actions in our Precision Coatings segment to restructure the large area coatings business that supports the blood glucose test strip product line. The product line has been under pricing and volume pressure driven by lower reimbursement rates and the sustained increase in the cost of palladium. The reduction in forecasted sales volume and restructuring actions triggered asset impairment testing in the quarter, resulting in an \$11.6 million non-cash goodwill impairment charge and a \$2.6 million non-cash other asset impairment charge. In addition, we separated 19 employees to right-size the cost for the plant.

Adjusted operating profit, which excludes the non-cash impairments and \$800,000 of severance-related restructuring, totaled \$21.2 million or 11.2% of value-added sales. This represents an increase of 13% over the prior year amount of \$18.7 million and is a record for third quarter operating profit. Commercial and operational initiatives, combined with sales volume growth, have delivered consistent quarterly improvement in profitability over the past 11 quarters.

Shifting to income taxes, we recorded a tax expense of \$2.3 million in the third quarter of 2019, which is an effective tax rate of 40%. The rate exceeded the statutory rate and year-to-date effective rate because of discrete items related to goodwill impairment and tax reform legislation. Excluding these two discrete items, our effective tax rate was 19% for the quarter comparable to our full year forecasted tax rate. Adjusted net income for the third quarter of 2019 totaled \$16.8 million, or \$0.81 per diluted share, up 19% from an adjusted \$0.68 per share recorded in the third quarter of 2018. Our differentiated product portfolio and focused execution on commercial and operational initiatives continues to deliver record-level financial performance.

Now let me review 2019 third quarter performance by business segment, starting first with Performance Alloys and Composites. Value-added sales were \$112 million, up 7% versus the third quarter of 2018. Continued strength in aerospace and defense, more specifically application wins in defense with high-purity beryllium products, plus increased volumes of beryllium hydroxide shipments, contributed to the growth. These products' end markets offset significant decreases in the automotive end market, which is seeing decreased demand combined with inventory corrections. In addition, the telecom and data center end market has been particularly challenged by the ongoing trade disputes.

Operating profit in the third quarter of 2019 totaled \$18.8 million or 17% of value-added sales, up 13% over the \$16.7 million in the prior year. This marks the fifth consecutive quarter this segment has delivered profit margins greater than 15% as we continue to drive commercial and operational improvements which leverage the segment's differentiated product offering.

Looking at the Advanced Materials business segment. Value-added sales in the third quarter of 2019 were \$55.6 million compared to third quarter 2018 value-added sales of \$55.3 million. Growth in most end markets served to offset continued softness in the segment's largest end market – semiconductor. This cyclical end market has been challenged for several consecutive quarters, and the latest China-US trade dispute and company-specific bands have contributed to the ongoing uncertainty.

Operating profit for the third quarter 2019 totaled \$6.2 million or 11.2% of value-added sales, compared to operating profit of \$6.9 million in the prior year quarter. Unfavorable sales mix with softer semiconductor sales is the primary driver pressuring profit margins for this segment. Continued softness in the semiconductor market challenges the target of returning this segment to historic profit levels of 15% by year end.

Turning finally now to Precision Coatings segment. Third quarter value-added sales were \$22.4 million, slightly below the \$23 million in value-added sales recorded in the third quarter of 2018, due primarily to lower sales of large area coatings products into the medical end market, offset by growth in optical coating products sold in consumer electronics and industrial applications.

Adjusted operating profit for this segment totaled \$3.3 million in the third quarter of 2019, compared to \$3.5 million in the third quarter of 2018. Expressed as a percentage of value-added sales, operating profit margin was 15% in both the current year and prior year quarter. Despite the decrease in sales volume of large area coating products line into the medical end market, growth and mix improvement in the optical coating product line has been able to offset a significant portion of the profit pressure.

Moving now to the balance sheet and cash flow. Operating cash flow year-to-date improved \$10 million in 2019 compared to the prior year due to stronger earnings and significantly lower pension contributions, offset by increased investments in accounts receivable to support the sales growth.

From a day sales outstanding perspective, there has been no deterioration in the quarter, and receivable balances should normalize as we close the calendar year.

We continue to maintain a very strong balance sheet, ending the quarter in a net cash position of \$92 million and have significant available liquidity to support capital allocation priorities mentioned in earlier calls, including organic growth opportunities, further inorganic growth opportunities, and consistently return capital to shareholders. For financial modeling purposes in 2019, capital spending should run approximately \$25 million. Mine development investments should be approximately \$2 million. Annual depreciation and amortization should run approximately \$40 million due to above average mine amortization as we optimize the integrated beryllium inventory supply chain. The tax rate adjusted for discrete items should be 18% to 20%.

And finally, now the earnings outlook for 2019. We have now delivered 11 consecutive quarters of year-over-year top line and profit growth driven by commercial and operational performance improvements, including new product sales growth, favorable product mix, manufacturing efficiency, and improved cost structure.

Based on our current order activity and forecasted end market demand, we are narrowing our full year 2019 earnings guidance range from the previously forecasted \$3.10 to \$3.25 per share to \$3.15 to \$3.20 per share. The midpoint of this range represents a 33% improvement over 2018 adjusted earnings, and the third consecutive year of greater than 30% earnings growth.

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

Operator

Thank you. We will now be conducting a question-and-answer session. [Operator instructions]. Our first question comes from the line of Edward Marshall with Sidoti. Please proceed with your question.

Q: Hi, guys. Good morning. So, you guys weren't around I guess when the pebble plant and the beryllium processing facility was put in place. That faced initially some significant delays kind of getting that up and getting the tolerances in. As you kind of embark on maybe the efficiency upgrade that you talked about, just kind of curious about what the timing looks like, what you've learned from potentially the past management team, and kind of to avoid some of those pitfalls that might have occurred, and what kind of investment are we discussing. Thanks.

Jugal Vijayvargiya - President & Chief Executive Officer

Ed, thanks for your question. So that project that we did was a \$64 million investment by the government as you indicated that it happened earlier. The project that we're working on now is not actually building the facility, it's upgrading the facility that we already have.

What we have done is we've actually done some extensive set of reviews on the number of specific initiatives that we're going to do with this thing. We've got a project leader in place that has looked at all the details. The specific lessons that you're talking about, we have actually walked through those lessons and made sure that we've got good program management and disciplined execution that we're going to follow on a regular basis with this.

As I indicated, it's a fairly small project compared to the initial build that we did with specific initiatives that are aligned. So I think we've got a really good understanding of it. It is a multiyear project, so we expect it to be around a three- to four-year type of upgrade that will happen.

So I believe we've got the lessons learned incorporated. We've got good disciplined project management in place, and we'll be monitoring it on a very careful basis so that it's a successful project over the next three to four years.

Q: You said fairly small. What's the size of the upgrade?

Jugal Vijayvargiya - President & Chief Executive Officer

The size of the upgrade I'm going to say is probably in the \$10 million to \$12 million project from the government.

Q: Got it. And the last time the government I believe took 80% of the capital and therefore the depreciated costs that are associated with it. Does that occur this time around as well? Or is this fully capitalized on—how does that work?

Jugal Vijayvargiya - President & Chief Executive Officer

Yes. We have a similar contract and similar structure that we are working through with the government this time as well.

Q: Great. When I look at semis, I think of the world and how it's changing and how kind of—we've talked about in the past resourcing opportunities for maybe some of your customers internationally and particularly in China.

As we kind of move forward and we think about semis, where are you in the context of maybe retaining customers and so forth? Any comments or color that you could add to that would be great.

Jugal Vijayvargiya - President & Chief Executive Officer

Yes. I think there are some positives and there are some negatives in this area. I mean clearly from a China perspective, as you know, there is issues related to the tariff situation and the trade situation that are contributing to some direct and indirect negative impact to our semiconductor business.

But at the same time, I'll say that some of the discussions between South Korea and Japan are contributing to some positive discussions that may over time materialize and lead some things our way. So I'd say there's some both.

The items related to Korea maybe a little bit longer term, perhaps sometime later in the 2020 timeframe. Whereas of course the items related to China are happening now and will continue until we get through some of these discussions. So on balance, I expect it to sort of neutralize over a longer period of time, but I think in general, I'd say there are some positives and negatives.

Q: Got it. And as we look into kind of what occurred, you called out auto. We see the kind of adjustments in the growth rates. As I kind of look into the fourth quarter, and I think about the guidance that you provided and how it relates maybe to the strike that occurred with GM, just kind of curious how much of that impact are you baking into the guidance, and how much of that would be say non-recurring post Q4 as we go move into 2020.

Jugal Vijayvargiya - President & Chief Executive Officer

So first let me just talk about automotive market in general. Our business on automotive is quite diversified. In fact majority of our business that ends up in automotive is in the European and Asian markets. There's not as large of an impact in North America in particular to the strike that you mentioned.

Certainly, there is seasonality for automotive that we're all aware of. Automotive in general as you know is down significantly. Year-to-date it's down over 1% to 2% in North America and Europe, down over 10% to 12% in China. So there's clearly impact due to automotive, but I wouldn't necessarily say that it's related to the strike.

Q2, Q3 for us, we're kind of relatively flat, but we expect automotive to continue to be very challenged as they continue to work through some inventory corrections, and until really China and Europe start to show some strength, automotive will continue to be a challenged market for us.

Q: Got it. And last one for me if I could. I know you're not providing 2020 outlook today, but looking at the step down in the fourth quarter versus the prior three, I'm wondering if when we look out to 2020, do you anticipate on an organic basis that earnings will increase in 2020?

Jugal Vijayvargiya - President & Chief Executive Officer

Well, first of all, let me just talk about your point about the step down in Q4. When you look at our full year and what we have delivered so far year-to-date as well as what we're guiding to deliver in Q4 that represents a 33% improvement over 2018. That's the third year in a row of 30% plus EPS growth.

So I think when we look at it on a full-year basis, you see the significant progress that the business has made on a year-over-year basis and has made over the last three years. Our focus continues to be year-over-year growth. We've talked about our One Materion strategy. We've talked about our sustainable profitable growth. So it is our expectation, and it is our drive to continue to work even during these very difficult times to make sure that we're driving growth on an ongoing basis.

As I said, we've done that for three years in a row at plus 30% growth, and we expect to be able to do that on an ongoing basis on a long-term basis. We are continuing to make very, very important strategic investments, despite some of the really large macro headwinds. Joe indicated in his remarks that R&D expense, we've actually increased R&D expense by 24% in the quarter. We continue to focus on our commercial resources and making sure that we're investing in our commercial excellence. We are really, really, heavily involved and continue to improve our cost structure as we go forward.

So, we are really focused on the long-term strategic growth of this Company and our expectation would be that we continue to drive improvement on a yearly basis.

Q: Got it. I appreciate the comments. Thanks very much, guys.

Operator

[Operator instructions]. Our next question comes from the line of Marco Rodriguez with Stonegate Capital. Please proceed with your question.

Q: Good morning, guys. Thank you for taking my questions. I was wondering if maybe we could talk a little bit about the Advanced Materials segment and then obviously the semiconductor impacts there. Some of the semi guys that have reported thus far still kind of not looking so hot in terms of the near future as far as their guidance is concerned. And you guys alluded to hitting that 15% operating margin goal would be very challenging with what's going on with the semiconductors.

So maybe can you just talk a little bit more about that as far as how maybe we should be thinking about that goal? Obviously it sounds like it's being pushed out to the right a little bit.

Jugal Vijayvargiya - President & Chief Executive Officer

Well, first let me highlight and make it very, very clear that that 15% operating margin goal is still our goal. And we believe that business absolutely should deliver those types of margins. Historically we've done that and we expect and will deliver those types of margins. I think the issue that we get to is timing. I can tell you that all the work that we're doing internally, the restructuring that we did a year ago, the number of improvements that we're driving in the business are absolutely on track, and we continue to make really, really good progress there.

The macro, you highlighted on semiconductor two-thirds of this business for AM is in the semiconductor market. So far this year, I think it's down roughly 15% year-over-year and it continues to be very challenged. However, we see good potential down the road. I mean, as we invest more on memory projects, as we invest more on the potential for semiconductor and 5G, as we invest more on semiconductor growth that related to the Internet of Things.

So I think the long-term prospects of this market as well as our business are very strong, and we are committed to the 15% margin. Just I think the issue is simply timing and working through some of the macro challenges that we have in the near-term.

Q: Understood. Then shifting gears a little bit here to the Precision Coatings side, obviously, the impairment charges that you took are related to the medical device or the glucose test strips. Are there any other factors that are driving that business, challenging that business? I think that before there were some, if I'm not mistaken, share loss gains in that particular business. Is that still occurring as well or is it just pretty much the reimbursement aspects that is challenging that market in general?

Joe Kelley - Vice President & Chief Financial Officer

So when you think about our Precision Coatings business, the large area coatings business or reportable unit inside that segment is the one that is affected. It is the one that was dealing with the share allocation issue several years ago. It has been under pressure, I would say for the past few years, from a reimbursement rate, pricing and volume.

But what's been covering that pressure up or outperforming is the optical coatings business. So that is the other large business within the Precision Coatings segment and that has been growing nicely. Over the last several years, the Precision Coatings segment has delivered relatively flat VA. That's the pressure on the large area coatings for the reasons I articulated, offset by the growth in our optical coatings business. And so the impairment charge relates specifically to the forecasted future volumes of the large area coatings business, which primarily serves the medical end market.

Q: And just given the challenges there, I think in 2018 the blood glucose or the medical side for that segment was a little bit over one-third of the revenue mix. Has that altered dramatically for the year-to-date period?

Joe Kelley - Vice President & Chief Financial Officer

So the mix there over the last several years has been changing as the optical coatings continue to represent a larger piece of the pie. And if you look at the profit margin of that segment it has also improved. I mean, year-to-date it's running at 13.6. So this mix improvement or mix shift I would say towards the optical coatings has helped us drive profit growth.

Q: Got you. And then kind of taking a look at expenses here on the SG&A side, obviously, a fairly large or substantial sequential and year-over-year decline on the SG&A line. I think you pointed out some reduction in core spending. I'm assuming some of this has to do with the restructuring in AM as well. Is that \$36 million level a good run rate or are there any, sort of, one-time excessive cost reductions that you did that need to be put back in, let's say, in the next couple of quarters or so?

Joe Kelley - Vice President & Chief Financial Officer

Yes. So there were some variable expenses that were, I'd say, abnormally low. But a large portion of the year-over-year reduction was some, I'll call, more systematic cost-saving initiatives. But in balance, I do think it is relatively low from a run rate standpoint.

Jugal Vijayvargiya - President & Chief Executive Officer

Yes. I think one thing I want to highlight though in addition to that is that we are making sure that our back office type of SG&A costs are very, very controlled. And in fact we're looking at all opportunities to improve those and gain more efficiency. Whereas more of the customer-facing SG&A is something that we are investing, and investing not only essentially, but more importantly investing I think in the regions.

So we've made several adds to our Europe and Asia business to be able to position us with feet on the ground and help grow the business on a long-term basis. I think one is the overall cost of SG&A, but more importantly, I think for us is the mix makeup of the SG&A spending. And so we're quite focused on the mix makeup of the SG&A spending.

Q: Got it. That's helpful. And last quick question if I may. Just kind of looking at the working capital accounts you did mention that you thought that some of the movements would normalize here by yearend. But it kind of looked like receivables were up fairly substantially and a healthy decline in inventory. Can you maybe talk a little bit about that, just give some color what's kind of driving those movements here in the quarter?

Joe Kelley - Vice President & Chief Financial Officer

Yes. As we spoke about the quarterly performance in terms of value-added sales we mentioned large defense orders for beryllium hydroxide, beryllium products, and then also shipments of beryllium hydroxide. Those both were at the very end of the quarter, and so our sales in the month of September were abnormally high, which is driving the receivable balance. From a days sales outstanding, there's been zero deterioration, and so we fully anticipate that that to normalize as we go to the end of the year.

On the inventory side, I will tell you that is the lowest level of inventory we've had over the past five years. And so our efforts as it relates to working capital efficiency and improvements there are clearly working and driving that lower inventory level.

Q: Got it. Thanks a lot guys. I appreciate your time.

Operator

Our next question comes from the line of Phil Gibbs with KeyBanc. Please proceed with your question.

Q: Good morning. The question is just on the defense markets in terms of what you're seeing there, and if there's any potential anxiety on 2020 just given that it's an election year, and spending can be uncertain in that backdrop.

Jugal Vijayvargiya - President & Chief Executive Officer

Yes. So in general, the defense market has continued to be a good performer for us, and Joe just highlighted some of the things about the orders that are coming in, orders that we received that I think there's good progress there. In general I mean we tend to be working on more longer-term projects. And so the short-term changes may not necessarily impact, whether positive or negative, to the order rate just because we are focused more on the long-term projects.

If there is a change in administration or change in some other basis, I mean there could be some potential delays with some appointees that come into play, some approval authorities that get changed, similar to what we faced I think the last time. But the long-term prospects and general indication of the market continues to be a favorable performer for us.

Q: Thank you. And I apologize if I missed it, but is the Huawei thing impacting anything that you're seeing specifically in the telecom side in terms of just the macro?

Jugal Vijayvargiya - President & Chief Executive Officer

Yes, I mean clearly both the direct and indirect sales are an impact for us on a direct basis. As you know companies are not allowed to deal directly with them. And so therefore that impacts our normal day-to-day development activities and normal discussions, in particular when it comes to some of the 5G work.

And then on an indirect basis, I mean certainly we have companies that we supply to who deal with them as well and that's an impact also. That is one of the macros that we're facing.

Q: Thanks very much.

Operator

Our next question is a follow-up from Edward Marshall with Sidoti. Please proceed with your question.

Q: Jugal, I just want to get perspective. The balance sheet is under-levered and that's probably a good thing given where we are in the economic cycle. But I'm curious if—I mean one of the initiatives you came on with was acquisitions and growing the base of business. And my sense is you're eventually going to put capital to work

and now you've got a facility that's getting upgraded for essentially nothing to Materion, so lots of excess capital to go around.

I'm just kind of thinking about maybe some of the thirst. I know you commented briefly earlier, but kind of how you think about deals going forward, and how far you'll reach, and what sizes are we kind of think—can we think about etc.?

Jugal Vijayvargiya - President & Chief Executive Officer

Yes. So, we do have a good cash position and of course, we have good access to capital as you indicated. So, we certainly have flexibility. But at the same time as you indicated, there are definitely macro conditions right now that put caution in our thinking.

However, we are fully committed to leveraging the balance sheet assuming the right thing comes up. We have been actively involved in talking to various companies. We have a number of projects that are, I'm going to say, continuously ongoing. We have not been able to find the right projects that we think will help the Company.

Our focus in the first couple of years, really, has been to position the Company for both internal cost management, efficiency improvement, and organic growth. And now I think we have a lot more focus that we can dedicate to the M&A side.

From a leverage standpoint, as we've talked before, I mean we'd be willing to go to perhaps three times, provided that we know a path to kind of get back down to 1.5 times EBITDA, because that probably would be what we'd be comfortable with. We want to make sure that we can focus on bolt-ons, and probably more medium-sized deals. Larger transactions, there's nothing against them, but they really would have to be the right type of transaction, because that would be sort of a one-shot transformational type of a deal for the Company. And we want to make sure that with all the progress that we've made over the last three years that we wouldn't do something to bring that back with integration challenges and other things.

So, we are very focused on organic and making investments on the organic side. There is a number of things that, we're involved in, where we have capital expenditures that we think could be very well utilized on the organic side, over the next 12 to 24 months.

And then on the inorganic, it clearly is a focus for us with the right type of deal that we can find. So, as I said, we're actively involved, and as we have progress on that we certainly will communicate.

Q: Appreciate your thoughts. Thanks very much.

Jugal Vijayvargiya - President & Chief Executive Officer

Thank you, Ed.

Operator

Mr. Shamrock, we have no further questions at this time. I would now like to turn the floor back over to you, for closing comments.

Steve Shamrock - Vice President, Corporate Controller & Investor Relations

Thank you. This is Steve Shamrock, and this concludes our third quarter 2019 earnings call. A recorded playback of this call will be available on the Company's website, Materion.com. We would like to thank all of you for participating on the call this morning and your interest in Materion. I will be available to answer any follow-up questions. My direct number is 216-383-4010. Thank you very much.