

Transcript of
Materion Corporation
Q4 2022 Earnings Conference Call
February 16, 2023

Participants

John Zaranec - Chief Accounting Officer
Jugal Vijayvargiya - President and Chief Executive Officer
Shelly Chadwick - Vice President and Chief Financial Officer

Analysts

Daniel Moore - CJS Securities
Phil Gibbs - KeyBanc Capital Markets
Dave Storms - Stonegate Capital Markets
David Silver - C.L. King

Presentation

Operator

Good morning, everybody and welcome to Materion's Fourth Quarter Earnings Release Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation.

I would now turn the conference over to your host, Mr. John Zaranec, Chief Accounting Officer. John, over to you.

John Zaranec - Chief Accounting Officer

Good morning and thank you for joining us on our fourth quarter 2022 earnings conference call. This is John Zaranec, Chief Accounting Officer. Before we begin our remarks this morning, I would like to point out that we have posted materials on the company's website that we will reference as part of today's review of the quarterly results. You can also access the materials through the Download feature on the earnings call webcast link.

With me today 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 and the full year, as well as an update on key strategic initiatives. Following Jugal, Shelley will review the detailed financial results for the quarter and the year, in addition to discussing our expectations for 2023. We will then open the call for questions.

Let me remind investors that any forward-looking statements made in this 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 the Attachments 4 through 7 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 over the call to Jugal for his comments.

Jugal Vijayvargiya - President and Chief Executive Officer

Thanks, John and welcome, everyone. It's great to be with you today and share details on another record quarter from Materion, which closes out a record year. This year, we marked several milestones for our company, crossing \$1 billion in value-added sales, delivering over \$300 million in quarterly sales, reaching nearly \$200 million in EBITDA and crossing \$5 for EPS.

Our transformation into a global leader in high-performance advanced materials is delivering, as we're driving a step change in both our sales and earnings. Our strong execution and delivery on strategic growth initiatives are enabling us to consistently outgrow our end markets. An expanding list of customers continue to place their trust in us, for the development of next generation solutions aligned with global megatrends. These strategic partnerships are helping to build a healthy pipeline for future growth and strengthening our position for 2023.

We brought this year to a record close with an incredible 11th consecutive quarter of VA sales growth. The new facility for Precision Clad Strip project contributed meaningfully, as we fully qualify the facility. In addition, we continue to supply clad strip from our legacy plants.

Our acquisition of HCS-Electronic Materials continues to outperform, delivering on robust demand from our customers. In total, the progress we've made on organic and inorganic initiatives drove record top and bottom-line growth with EBITDA margins, reaching 18% in the quarter, tracking well towards our mid-term target of 20%, and contributing to record quarterly earnings of \$1.49 per share.

For the full year, we delivered year-on-year increases of 30% or more across sales, EBITDA and EPS. It was an exceptional year in our company's transformation. Organic growth investments and strategic customer partnerships contributed more meaningfully to our results. The integration of HCS-Electronic Materials has gone extremely well, as the power of our combined teams generated significant commercial and operational opportunities that are driving growth beyond our already strong synergy expectations. We're investing more than \$20 million in the Newton facility to expand capacity and capabilities to service demand in the semiconductor, industrial and aerospace and defense markets.

Our Precision Clad Strip facility was completed and qualified during the year, and is now achieving significant production levels, a noteworthy accomplishment given the size and scale of

that project. As we've shared, the customer is investing an additional \$40 million with us to increase capacity after their initial investment of \$80 million. The construction for phase two capacity remains on track, and we anticipate that capacity coming on-line in late 2024.

The build out of our new facility in Milwaukee is progressing nicely, as we are installing new equipment over the next few quarters, with production capabilities coming on-line in the first half of next year. This site will expand our capacity to support production of the most sophisticated semiconductor chips, as well as broaden our advanced chemicals capabilities to produce materials for next generation batteries for electric vehicles. This year, we also announced a partnership with Kairos Energy to support clean energy development, with the establishment of a molten salt purification plant that produces FLiBe, a reliable, safe and cost-effective molten salt coolant used in nuclear energy production.

Today, I'm happy to announce two additional customer partnerships that further develop our growth pipeline. First, we secured another customer funded investment of \$15 million to expand our capabilities and supply critical materials for clean energy power generation. We expect equipment installation to be completed this year at our facilities and look forward to completing delivery of the materials by end of next year.

We also continue to see great interest in our capabilities for critical space applications. We recently signed a three-year agreement to supply materials for space propulsion systems. We have already received an initial \$10 million order which we will start to ship middle of this year. This partnership further establishes Materion as a leading partner for innovative solutions that deliver the level of performance and reliability required for critical space missions.

Strategic growth projects are the cornerstone of our strategy. And in 2022, our team demonstrated an ability to execute on our commitments, and to continue developing important customer partnerships. There is no better evidence of our global success as an advanced material leader and the customers who continue to choose Materion and make upfront financial contributions, so we can solve the most pressing challenges.

Materion's performance over the past two years has seen sales grow 70%, with earnings more than doubled. And as indicated by our growing list of customer partnerships, we are continuing to build for the future. Remaining laser-focused on outpacing the growth rate of the markets we serve and continuing to align ourselves with megatrends that will open additional growth avenues for years to come. With the success and progress of our outgrowth initiatives, we're heading into 2023 with excellent momentum. We will continue to drive market outgrowth, even as the environment experiences pockets of general softness, particularly in the semiconductor space.

Operational excellence, disciplined cost management, combined with our outgrowth will ensure we continue to advance the earnings power of our company. We will continue to drive our transformation and differentiate Materion through unparalleled technical expertise, innovation and strong performance. As we continue to build our pipeline, we expect to deliver another year of record results at both top and bottom line.

I'm proud of our global team as they continue to support our customers and help them exceed expectations. Thanks to our team's talent and dedication, we have delivered record results for two consecutive years. Together, we are driving long-term value creation for our customers, our shareholders and our people.

Now, let me turn the call over to Shelly to cover the financials.

Shelly Chadwick - Vice President and Chief Financial Officer

Thanks, Jugal and good morning, everyone. During my comments, I will reference the slides posted on our website this morning starting on Slide 13. As Jugal outlined in his opening remarks, we achieved another record quarter of value-added sales, adjusted EBITDA and earnings per share in the fourth quarter.

Value-added sales, which exclude the impact of pass-through precious metal costs, were \$309.2 million for the quarter, up 30% for the prior year. This significant increase is driven by strong demand across the industrial, aerospace and energy markets, along with higher Precision Clad Strip sales in the fourth quarter.

Organic VA sales, excluding the impact of acquisitions and currency, increased approximately 26% compared to the prior year, which significant above-market growth. We delivered adjusted earnings of \$1.49 per share in the fourth quarter, up 32% as compared to the prior year, despite substantial interest headwinds.

Moving to Slide 14, adjusted EBITDA in the quarter was \$55.6 million or 18% of value-added sales, up 40% from the prior year. The increase was largely driven by higher volume, favorable price mix and positive contribution from our HCS-Electronic Materials acquisition. These strong growth drivers were partially offset by commercial and R&D investments as we continue to support our organic growth initiatives.

Now, let me review fourth quarter performance by business segment. Starting with our Performance Materials business on Slide 15, value-added sales were a record \$177.6 million, an increase of 53% compared to prior year. The increase was driven by strong performance in the industrial, energy and aerospace end markets and higher defense and hydroxide shipments.

In addition, the new Precision Clad Strip plant contributed near full run rate with additional shipments from our legacy facility. EBITDA, excluding special items was a record at \$44.3 million and a record 25% of value-added sales, up 96% compared to \$22.6 million in the fourth quarter of '21. The increase in EBITDA was primarily due to increased volume, favorable price cost and a strong mix.

Moving to the 2023 outlook, the order book for Performance Materials remain strong, and we expect another year of above-market growth. The largest markets served, including industrial, aerospace and energy should all see growth in 2023. And with our Precision Clad Strip business, exiting '22 near the full run rate, we expect meaningful contribution in 2023.

Next, turning to Electronic Materials on Slide 16. Fourth quarter value-added sales were \$104 million, up 16% versus the prior year and up 2% organically. The organic growth rate has been decelerating with slower shipments in semiconductor as customers work through inventory correction. Sequentially, Electronic Materials' VA sales declined 9% organically.

EBITDA, excluding special items was \$17.1 million or 16.4% of value-added sales in the quarter, an increase of 8% from the prior year. The increase was driven largely by increased HCS volume and favorable price cost. This business also saw significant margin expansion from the third quarter of 130 basis points due to a richer mix combined with our cost control efforts. As we look forward to the coming year, we expect the Electronic Materials business to outgrow softening markets and continue to see positive contribution from HCS-Electronic Materials with higher volumes and improved price cost from that portion of the business.

Finally, turning to the Precision Optics segment on Slide 17. Value-added sales were \$27.7 million, down 15% compared to the prior year. This decrease was driven mainly by the discontinued consumer electronics application and another quarter of foreign currency headwind negatively impacting the top line by approximately \$2 million.

EBITDA, excluding special items was \$4 million or 14.6% of value-added sales, down from the prior year due to the lower sales volume. Despite this volume reduction, EBITDA margins have continued to expand each quarter in 2022 as we have successfully managed costs while rebuilding the growth pipeline. For 2023, we expect quarterly sequential improvements supported by new business in defense, automotive and space exploration.

Moving to Slide 18, let me quickly review the record results we saw in full year 2022. As we did in '21, we delivered another record year of value-added sales, adjusted EBITDA and adjusted earnings per share. VA sales reached an all-time high of \$1.1 billion, up 33% from the prior year. This year-over-year increase resulted from strong demand across the semiconductor, industrial, energy and aerospace end markets, as well as the impact of our Clad Strip project and the addition of HCS-Electronic Materials. Excluding the impact of acquisitions and currency, organic VA sales increased approximately 18% when compared to the prior year, representing clear market outgrowth.

Adjusted EBITDA for the year was \$196 million or 17.1% of value-added sales, up 37% from the prior year. The increase was largely driven by higher volume, favorable price cost and the impact of the HCS-Electronic Materials acquisition. We delivered \$5.27 adjusted earnings per share for the year, up 30% as compared to the prior year. This resulted from the company's strong performance, despite an additional \$0.70 of interest expense when compared to '21.

Moving now to cash, debt and liquidity on Slide 19. We ended the quarter with a net debt position of approximately \$419 million and \$185 million of available capacity on the company's credit facility. Our leverage at 2.1 times sits at the midpoint of our target range with our expanding EBITDA and \$62 million of debt paid down in the fourth quarter funded by our strong free cash flow.

Lastly, transitioning to Slide 20, let me address our 2023 outlook. While we remain confident in our expanding organic initiatives pipeline, we will continue to see some end market softening particularly in the semiconductor space. Despite this, we expect to deliver another record year for VA sales and earnings with adjusted EPS in the range of \$5.50 to \$5.90 per share, representing an 8% increase at the midpoint.

We have also provided some updated modeling assumptions as we move into '23. We're anticipating another strong year of growth investment, with capital expenditures forecasted at approximately \$95 million for both new and in-process projects. We're also forecasting roughly \$11 million in mine development costs to occur in the back half of '23 relating to a new pit opening at our Beryllium mine.

In closing, despite some market headwinds, 2023 is shaping up to be another exciting year of strong market outgrowth and execution from Materion, leading to record results, 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. The floor is now open for questions. Your first question is coming from Daniel Moore of CJS Securities. Daniel, your line is live.

Q: Good morning, Jugal. Good morning, Shelly. Thanks for taking the questions.

Shelly Chadwick - Vice President and Chief Financial Officer

Good morning.

Jugal Vijayvargiya - President and Chief Executive Officer

Good morning, Dan.

Q: Start with the two new partnerships that you announced this morning, maybe just a little bit more detail on the specific product applications for each and what the revenue opportunity and ramp could look like over the next say you know, one to two years?

Jugal Vijayvargiya - President and Chief Executive Officer

Yeah. So, you know, great partnerships. You know, the first one we announced is a funded one with about a \$15 million investment that we indicated, that investment will be spent this year. We're really putting capacity in place, we expect to have the sales completed, I would say, this year and really primarily next year in this project.

Really, as I said, exciting partnership, I'm not able to go too much into detail, Dan on what the product is or specific material that we're going to supply just based on the confidential nature of the contract that we have. But it is quite exciting and actually impacts a couple of our facilities that will put capacity increases in and then be able to supply as I said, between this year and next year with the majority of it, I would say next year.

With the second partnership, this is a one that we actually have capacity today. So, you know, there's not really any funding required for the second item, which is a critical space application, we're going to utilize our existing capacity that we have. It is a three-year agreement that we have reached with the customer. As you know, space is an important megatrend for us. We've talked about it about a year ago in one of our calls. And this is just really exciting application in propulsion systems.

So, our materials being utilized for that, we're going to start delivering yet I would say this year in the second half of this year of that initial \$10 million order and then into next year. And our expectation is that we'll continue to do that over that three-year timeframe and then of course beyond that as well. Both of these opportunities are part of our Performance Materials segment. So quite excited about continued organic growth opportunities, in our company.

Q: Very helpful. Overall, it sounds like you're looking for kind of a positive maybe low-to-mid single-digit growth year for value-added sales. Is that hearing that correctly putting all the pieces together, number one. Number two, what does the cadence look like? Are we likely to start off in that clip or maybe a little slower given you know some of the near-term headwinds in semi?

Jugal Vijayvargiya - President and Chief Executive Officer

Yeah, I mean, let's just start with semi, because, you know, that is, as you know, sort of a question mark, I think that many companies have right now, including us, I would say that, in general, it's probably, a slower first half as inventory correction works. And then you know, better second half as the pickup is expected.

Semi is about a third of our business. So, you know, that certainly has an impact on our overall company. And so, I would expect the first half to be a little bit slower than the second half, in terms of sales, and I guess you could kind of extrapolate that to the earnings power of the company as well.

You know, we think when you look at our markets chart, which we have included in our deck, I think at Slide 10, the majority of the markets that we participate in are, we believe we're going to be positive, so little north the zero to three or a little bit more than three for a couple of them, which is aerospace and energy, semi is the big one as we indicated, which is going to be perhaps a little bit more negative.

So, I think your assessment is probably reasonable in terms of the type of growth the company may experience overall, but I certainly would say that it is going to be a first half start a bit on the softer side, but then really deliver much more in the second half.

But overall, we're excited. I mean, because you're looking at an 8% growth on the EPS side, I mean, the operational performance, we think the company is going to be somewhere in the 14, 15, maybe, type of a range. We have a little bit more interest, of course, that we have to deal with, so the EPS is around 8%, but I think overall, it's going to be a good year for us.

Shelly Chadwick - Vice President and Chief Financial Officer

And Dan maybe since you've talked about timing, I would just talk about the sequential Q4 to Q1, you know, we had a really strong Q4 as Jugal talked about, we'll see the semi softening in Q1. So, we certainly expect to be up year-on-year, maybe 10%, earnings from Q1 to Q1, but be a little bit potentially softer than Q4.

Q: Very helpful, Shelly. Last for me, and I'll jump out. Cash flow picked up nicely in the quarter, obviously. And you gave the outlook for CapEx just talk about kind of what your expectations are for working capital and cash generation in fiscal '23? And with the balance sheet now leveraged down to the kind of midpoint of the range and declining any shifts in order of priority for capital allocation? Thanks.

Shelly Chadwick - Vice President and Chief Financial Officer

Yeah, I know, great question. And we were pleased with our cash flow generation in Q4, you know, certainly, we're keeping that in view, to make sure that our leverage is in the low-to-mid part of that range, I think, is what we're targeting at this point, given where we are kind of in the cycle of things. Our Capex was a bit lower as we had some CapEx in accounts payable at year end. So that means in Q1, we're going to have a bigger payment for CapEx than maybe normal.

So, I don't think we're going to see a real strong free cash flow number out of Q1 but expect a good number for the whole year. And we'll bring that debt down a bit more. I don't think we're going to put that as number one priority, as you saw the CapEx numbers still healthy. We've got a lot of growth opportunities. But you'll see that that number come down, you know, right now we're at 2.1. We'll certainly be in the high ones this time next year.

Q: Perfect. Jump back with any follow-ups. Thank you.

Shelly Chadwick - Vice President and Chief Financial Officer

Thanks.

Operator

Thank you very much. Your next question is coming from Phil Gibbs. Phil, your line is live. Phil, are you on mute?

Q: First question is just on the defense and hydroxide piece that you mentioned. I know it's typically a good kicker to your mix. And we saw a lot of our other companies in the specialty metals arena have good quarters and defense being partially maybe because of the war and international demand. So, what was the pickup quarter-on-quarter for PAC meaning, how outsized was it? And then what should we expect to persist as some of these you know geopolitical and macro things persist?

Jugal Vijayvargiya - President and Chief Executive Officer

Yeah. So, Phil we had mentioned when you look at defense, I think when we, in our Q3 call, we had mentioned that there may be some defense orders on timing that we have been waiting on. And we've been trying to get them in, that may benefit in Q4. And that's exactly what happened, and they benefited here in Q4. We expect defense to be a good market, just in terms of going into '23, we've noted in our Slide 10, that it's probably somewhere in the zero to three type of range.

So, you know, from a mid growth type of market for us. But that certainly was a positive for us in Q4, and then hydroxide, I mean we typically have one or two shipments per quarter, depending on the needs of the customer may have and we happen to have a shipment, extra shipment in Q4 that benefited us, you know, we would expect the shipment timing for '23 to be relatively in line with, let's say, the historical rate that we've had. So, I wouldn't expect anything unusually positive or negative from the hydroxide shipments.

Shelly Chadwick - Vice President and Chief Financial Officer

And maybe just to add some color on the Q4, as you know, Phil the defense shipments can be kind of lumpy. They come in chunks versus that consistent throughout the year. So, year-on-year in Q4, you saw pretty significant growth in the 20s, if you would, percentagewise, which certainly helped with our mix.

Q: Okay, that's helpful. And then as the second question, I know, the Tantalum misalignment impacted Q3 I think, to the tune of \$4 million or 5 million, not really sure what it was, and in the fourth quarter, but I remember you expected some of those things to gradually get better. I don't think the first quarter was inclusive of that. But some better contracts and some things timing up a little bit better by the second quarter. Can you give some color in terms of where those things stand?

Shelly Chadwick - Vice President and Chief Financial Officer

Yeah, maybe I'll start on that one. So yeah we talked about the \$4 million in Q4 that looked better in Q3 closer to \$3 million, we will see that still work out in Q1 as we're working through some higher cost inventory. The negotiations with customers are largely behind us. So, we're seeing some of that pricing start to feather in as we enter the year, but some contracts renegotiate in the year as well. So, that's why we'll still see a little bit of hangover as we start out '23.

Q: Is that still reasonable to suspect that that's done by the second quarter for the most part?

Jugal Vijayvargiya - President and Chief Executive Officer

Yeah, I think what we had indicated is, for the most part, it would start to phase out in the second quarter. And then the second half, we expected it to be a little bit on the clean side. So that's the expectation.

Q: Thanks so much.

Operator

Thank you. Your next question is coming from Dave Storms from Stonegate Capital Markets. Dave, your line is live and please proceed.

Q: Good morning and thanks for taking my questions.

Jugal Vijayvargiya - President and Chief Executive Officer

Good morning –

Q: Good morning. Very strong year-over-year EBITDA margin expansion and performance metals on a value-add level. Can we expect any of that to be stickier? Is that more just a product of you know, maybe inflation monitoring or more macro trends?

Jugal Vijayvargiya - President and Chief Executive Officer

Well, our Performance Materials business certainly did really well in Q4, there's a number of factors, the business has continued to drive organic growth. As we move forward, some of the operational challenges that we had in Q3, we got those challenges behind us. We just mentioned, for example, the positive mix with the defense and hydroxide both of those tend to go in the Performance Materials business.

We also had the Precision Clad business ramp much more in Q4. So that certainly was a favorable item. So, I would expect that as we move forward, some of these things are going to continue to benefit and then some certainly the one-time type of things like the defense and hydroxide are going to taper off. So, we expect Performance Materials to continue to do well into '23. But I'm not sure the run rate, the rate that was delivered in Q4, is something that we can replicate, you know, 4 times this year.

Shelly Chadwick - Vice President and Chief Financial Officer

Yeah. This is not the new floor, right, so if EBIT was at around 20% or 18%, sorry, for the year and 20%, 21% in the quarter. I think will do better than the year but '21 certainly not the floor.

Q: That's perfect. And just touching on the Precision Clad really quick. Shelly, I know you mentioned in your comments that was near full run rate. Just curious, is there any color as to what, you know, full run rate would look like?

Shelly Chadwick - Vice President and Chief Financial Officer

So yeah, I would say we exited the year near full run rate. So probably not from the new facility at run, we're at full run rate for the whole quarter. But we did have the benefit of also shipping from our legacy facility. So, in total, it's really favorable volume. You know, we do expect to have all the volume coming out of the new facility in '23. And we're getting very close to full ramp in that facility.

Q: That's perfect. Thank you. One more, if I could. Just wondering, Shelly you also mentioned the order book looks very good. I was wondering if there was anything specific to, you know, China and the reopening over there? And if there's any over effects we can expect from a supply chain or anything of that nature?

Jugal Vijayvargiya - President and Chief Executive Officer

Yeah, no, our order book continues to look strong. I mean, the mix of our order books certainly is changing a little bit just based on market conditions. So, for example we've talked about semiconductor and what that market is doing. So, our order book on that one is a little bit stressed. But we have a really positive order book on some of the other markets.

So, I think and overall, our order book continues to be favorable, and one that supports our guide that we've provided for '23, which is a substantial you know growth from '22 levels. You know,

China opening up certainly has a, I want to say, a positive impact. But you know, our business in China is relatively small in comparison to our total company. So, it has you know a small positive impact, but nothing of meaningful impact.

Q: That's perfect. Thank you, both very much.

Operator

Thank you. Our next question is coming from David Silver from C.L. King. David, your line is live. Please go ahead.

Q: Yeah, hi. Good morning. Thank you.

Shelly Chadwick - Vice President and Chief Financial Officer

Good morning.

Jugal Vijayvargiya - President and Chief Executive Officer

Good morning, David.

Q: Yeah. Yeah, so a couple of questions, I apologize, it'll probably be a little hopscotching around here. First thing I wanted to ask you about was the effect of currency on your operations this year. Also, what are your assumptions for currency impacting. Well, what was the currency impact assumed in the fiscal year 2023 EPS guidance range?

Q: And if you could, I mean, is there a revenue, you know, a delta on the revenues, delta on the adjusted EPS, if you had that that would be great. Thank you.

Shelly Chadwick - Vice President and Chief Financial Officer

Yeah. So, one good thing about our business, where we have currency exposure, we've got pretty good matching on cost. So, what we see on the revenue line is usually much bigger than what we would see on the EBITDA line. So, we're well protected from that perspective.

You know, when we go into a new year, we're often looking at keeping it stable with where we ended the year, so we don't make big calls and what we think's going to happen with currency. You know, what we saw this year was not overly meaningful, talking maybe \$10 million or so for the top line, but nothing near that for the bottom line.

Q: Okay. And then just may be kind of more of a theoretical question or a philosophical question, but a number of my industrial and electronic materials companies, you know, have talked about the significant impact of inventory destocking during the fourth quarter, both direct, you know, their sales, but also indirect may be affecting their customers' downstream. I may have missed it. I did not hear too much reference to that.

And I'm just wondering, you know, was destocking an issue? Do you think it'll be an issue in the first half of 2023? Or is it the case that you know, maybe the more advanced materials, nature of your portfolio doesn't lend itself as readily to you know the kind of buffer stock build up and

draw down that maybe has been characteristic of some of your end markets more broadly? Thank you.

Jugal Vijayvargiya - President and Chief Executive Officer

Yeah, well, I think the inventory correction issue or destocking that you mentioned is definitely an issue in the semiconductor space. Not only are we seeing it, but I think the entire market in the semi space is seeing that. We expect that to work its way out, I would say in the first half, and then pick back up in the second half. That's one of the reasons why we've got semiconductor as a market, perhaps a little bit less than zero from a year-over-year perspective.

So, I think that is an issue, David, and it is something that I think we're experiencing and certainly, I'd say pretty much the entire semi-industry is experiencing. When I look at our other markets, I don't see destocking as a report, I think other markets are continuing to move forward. I mean, as we've highlighted that in our chart, chart 10 of kind of how we see '23 coming along.

We do see, in general, I would say a little bit softer first half versus the second half. But a lot of that is due to the semiconductor side, just because of that business is about a third of our business. So, it is an issue for part of our business. But I would say not an issue for some other parts of our business.

Q: Okay. Next couple of questions, I think are going to be on the – would be on the Electronic Materials business. And I'm going to quote just the sentence from the press release this morning. So, you know, you said the successful, I'm going to paraphrase, but the successful integration of HCS and the power of their combined teams is "generating value beyond our expectations". So, the generating value beyond their expectations is what I was wondering about.

In particular, when I think about that in the context of, you know, some of the goals or some of the opportunities with combining HCS. I'm thinking more along the lines of maybe revenue synergies, in other words, cost synergies were probably expected and could be, you know, could be identified ahead of time to a certain extent, whereas revenue synergies, you know, there's potential, but the timing is always – the timing and execution are always highly uncertain. But maybe if you could comment on what the beyond our expectations element of the HCS acquisition integration, you know, combination has, you know, how that has played out?

Jugal Vijayvargiya - President and Chief Executive Officer

Yeah, well, first of all, I think the HCS acquisition, just like our quarter indicated, I mean, it has delivered really well for us. Our teams combined with the HCS team have worked on so many different fronts to deliver. During the year, we were able to add over 20% headcount to the facility and increase our output from the facility. We announced over \$20 million worth of capital investments that we're putting in place to be able to put new capacity for the business.

The number of initiatives that our teams have been working on where they have worked together to go and offer our complete portfolio of Electronic Materials to the top 15 semiconductor manufacturers has been very powerful. So, I think there's a number of things that have happened, certainly, all of those things, by the way, have led to great financial results as well for that business, I would say much better than what the synergies levels that we had indicated.

I think the other thing that's been very interesting, and we've talked about this, is when you look at Tantalum, and the application of Tantalum continues to increase, in general, right, the smaller the nodes are getting, the more application for Tantalum. And so even though there is the short-term softness on the memory side, the logic side is continuing very strong. And we would expect the memory side to be recovering. So, the long-term trend of this business is extremely good and extremely healthy.

So, I think it's a combination of things when we say beyond expectations, combination of how things have turned out on our top line with the synergies, combination of the investments that we've made, the people that we've actually put in place, as well as I think the future opportunities that we have for our combined portfolio. So, all of that put together, I think just is very, very favorable for us and we're excited about this business.

Q: Okay. I'd like to kind of follow-up on the Electronic Materials outlook. And you know, I apologize in advance that this question will be a little more disjointed than normal. But, you know, in the United States, there's a number of very large wafer fabs and related units being coming on stream or under development now, due to come on stream between, let's say, early 2024 through 2026. And it's my opinion that, you know, the wafer fab development is moving maybe a little bit faster than what I would call the ecosystem, you know, the suppliers and support and logistics and whatnot.

And along those lines, you know, two things, I was wondering if you could comment on generally on how you see the opportunities for your products and services, developing as those big new wafer fabs, you know, are completed and get commissioned and ramp up. And then secondly, how does the Chips Act or the new level of aid that's available for semiconductor manufacturer in this country? How does that play into your growth strategies or your ability to tap into that source of financial support, et cetera? So just, you know, the growth that had already been announced, and now the financial support at the federal level? Thank you.

Jugal Vijayvargiya - President and Chief Executive Officer

Yeah, yeah. Well, first of all, as we've already indicated, I think on the call, and we continue to indicate, this is a space that we're very excited about. The acquisition that we did, of course, is in the semiconductor space, we see this as a long-term growth play for us. It's producing good short-term results, and we expect it to produce good long-term results.

Our R&D footprint and our manufacturing footprint is primarily in North America. And, you know, the acquisition that we made here about a year ago is also in North America. So, I think we are very well positioned to continue to work with all the semiconductor manufacturers, as we indicated, we have access to all the top 15 semiconductor manufacturers, and then we are able to have both R&D as well as our manufacturing in region to support them. So, we see that as a very positive for us on a go-forward basis.

When you look at then what additional things we can do, I mean, we certainly are involved in the Chips Act discussions, we're studying it very carefully, we're looking at what options are there could be, we're looking at which of these capabilities and skill sets that we have that we could

further strengthen. And so, we're involved in a number of discussions on how we can take advantage of and support the chip manufacturers as they grow their capacity. So, as we have more on that to communicate, we certainly will. But yeah, that is definitely one of the initiatives that you know, we're engaged in.

Q: Okay. And then just last question, and I apologize when Shelley was going through this part of her discussion, I was a tiny bit distracted. But just to touch base on the – your third segment, the optics, I think you were saying that – you were indicating that maybe the restructuring, reshaping had kind of reached a point where the unit there has been stabilized and could be positioned for growth. And I believe you mentioned a healthy backlog. But would it be fair to say that we should, you know, look for kind of an inflection point or a turnaround to growth overall in that segment full year '23 versus full year '22? Thank you.

Jugal Vijayvargiya - President and Chief Executive Officer

Yeah, I think that's fair to say that, as we look at our '23, and kind of look at the new business initiatives that businesses are involved in, we would expect that those things to kick in during the year, certainly the back half of the year, then would have more of a benefit than the front half of the year. But on a full year basis, we would expect that business to have growth on a year-over-year basis on you know both the top and bottom line.

So, we're excited about that. I mean, it's been a great business for us. It's gone through some headwinds here over the last 12 months or so just based on customer decisions and you know, some of the Life Sciences product discontinuation that happened but, in general, this is a great business for us and we're looking forward to be able to share the turnaround here during the year.

Q: Very helpful. Thank you very much.

Jugal Vijayvargiya - President and Chief Executive Officer

Thanks, David.

Operator

Thank you. And there are no further questions in queue. I would now like to turn the floor over to John Zaranec for any closing remarks.

John Zaranec - Chief Accounting Officer

Thank you. This concludes our fourth quarter 2022 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 the call this morning and your interest in Materion. I will be available for any follow-up questions. My number is 216-383-4010. Thanks again.

Operator

Thank you. This does conclude today's conference call. You may disconnect your phone lines at this time and have a wonderful day. Thank you for your participation.