

Transcript of
Materion Corporation
Second Quarter 2025 Earnings Conference Call
July 30, 2025

Participants

Kyle Kelleher - Director of Investor Relations and Corporate FP&A, Materion Corporation

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

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

Analysts

Philip Gibbs - KeyBanc Capital Markets Inc.

Daniel Moore - CJS Securities

Mike Harrison - Seaport Research Partners

Dave Storms - Stonegate Capital Partners, Inc.

Presentation

Operator

Greetings. Welcome to the Materion Second Quarter 2025 Earnings Conference Call. At this time, all participants have been placed on a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] Please note, this conference is being recorded.

I will now turn the conference over to your host, Kyle Kelleher, Director of Investor Relations and Corporate FP&A. You may begin.

Kyle Kelleher - Director of Investor Relations and Corporate FP&A, Materion Corporation

Good morning and thank you for joining us on our second quarter 2025 earnings conference call. This is Kyle Kelleher, Director of Investor Relations and Corporate FP&A. 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 from 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. Following Jugal, Shelly will review the detailed financial results for the quarter in addition to discussing expectations for the remainder of 2025. 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 call press release we issued this morning.

Additionally, comments regarding earnings before interest, taxes, depreciation, depletion, and amortization, net income, and earnings per share reflect the adjusted GAAP numbers shown in attachments four through nine 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, Materion Corporation

Thank you, Kyle, and welcome, everyone. It's a pleasure to be with you today to discuss our second quarter results and provide an update on our outlook for the remainder of 2025. Our business performed very well in the quarter, delivering record second quarter margins and strong free cash flow. Although sales were down 2% organically, we experienced solid growth in aerospace & defense, and energy as well as in semiconductor outside of China.

EBITDA was strong at \$56 million and we continue to deliver margins above 20%, despite some pockets of softness still moving through our top-line. I am particularly proud of our Electronic Materials team as they delivered an all-time high EBITDA margin of 23.4%, demonstrating the power of the work that has been done to optimize the cost structure and improve operational efficiencies in that segment. We have reached a new level of performance for EM, and I expect the business to deliver very good margin expansion for the full year.

Precision Optics also showed a significant improvement in the second quarter as the transformation continues. Sales improved 14% sequentially and EBITDA increased more than \$2 million, marking the second consecutive quarter of improvement. Beyond the cost structure improvements that have been implemented, the business is making excellent progress on new business initiatives that should begin contributing by the end of the year.

As we have discussed over the last few quarters, cash flow generation remains a key focus for us as evidenced by our Q2 results. We generated \$36 million in free cash flow, the strongest we've seen in any second quarter. Our disciplined approach to managing working capital and pacing capital investments is driving the performance.

Earlier this month, we acquired the manufacturing assets for tantalum solutions from Konasol, a Korean manufacturer serving the semiconductor and adjacent

markets. This acquisition expands our semiconductor footprint in Asia, allowing us to better serve the large Tier 1 chip manufacturers in that region and insource more of the target manufacturing value chain. This move expands our position as a leading global supplier of deposition materials. The integration is progressing well, and we have begun producing samples for customer qualifications. While the results for the quarter were very strong, what is perhaps more encouraging are many positive signs we're seeing in order rates, signaling promising momentum as we move through the back half of 2025 and into 2026.

As the broader semiconductor market is showing signs of improvement with wafer starts up and customer inventories coming in line, our order rates are improving, especially within data storage, power, and communication devices. Sequentially, our order rates improved double-digit, excluding China, where the customers are still showing tariff-related hesitancy. Defense is an area that is getting a significant amount of attention globally, and this is leading to many new opportunities from Materion.

Our pipeline of new business opportunities is rapidly accelerating, with over \$100 million of request for quotation received in the second quarter alone. In the first half of 2025, we saw record bookings of \$75 million, and our initiative to grow our defense business outside the U.S. has resulted in a 60% year-on-year sales increase. I expect the pace of defense-related activity will continue picking up for the back half of the year.

In space, we continue to win new applications and expand our reach. Our order backlog has more than doubled in the last year. And we recently won a new application for ground station equipment with a leading U.S. space customer. Leveraging our larger space propulsion systems when in the U.S., we also secured an order for the same application for the customer in Europe.

I also want to highlight our business activity in the energy end market. Our sales were up 28% year-on-year for the first half of 2025, as we are growing new and existing business to meet the world's increasing energy demands. We have a particular focus on initiatives in new energy, where our first half sales have exceeded the full year sales of 2024. As our business is well aligned to this global megatrend, we expect this area to be a growth driver for the company for the foreseeable future.

When we released our first quarter earnings in late April, there was considerable uncertainty surrounding the tariff environment, which we noted as a qualifier to our guidance. While much remains to be finalized, we are more confident affirming our initial full year earnings guide, despite the risk that remains, thanks to our strong year-to-date performance, new business wins, and the increased order activity we are seeing. I would like to thank our global team for their unwavering commitment to driving our business forward, while navigating the current environment.

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

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

Thanks, Jugal, and good morning, everyone. During my comments, I will reference the slides posted on our website this morning, starting on Slide 10.

In the second quarter, value-added sales, which exclude the impact of pass-through precious metal costs, were \$269 million, down 2% organically from prior year, and up 4% sequentially. This year-over-year slight decrease was largely driven by lower precision clad strip shipments and semiconductor demand from China. Excluding the impact of these items, value-added sales would have been up 2% versus the prior year. Strength in aerospace & defense, energy, and semiconductor sales outside of China are driving the year-over-year sales increase. When looking at earnings per share, we delivered quarterly adjusted earnings of \$1.37, down 4% from prior year, but up 21% sequentially.

Moving to Slide 11, adjusted EBITDA was \$55.8 million, or a second quarter record of 20.8% of value-added sales, down 3% year-over-year with 10 basis points of margin expansion, despite the lower volume. This decrease was driven by lower volume, partially offset by strong operational performance and structural cost improvements. Favorable pricing was realized in the quarter, offsetting unfavorable mix from hydroxide shipment timing.

Moving to Slide 12, let me review second quarter performance by business segment. Starting with Performance Materials, value-added sales were \$168.5 million, down 3% year-over-year, but up 5% sequentially. The year-over-year decrease was driven primarily by lower precision clad strip shipments as the expected inventory correction continues. Excluding precision clad strip, sales were up 3% driven by strength in energy and aerospace & defense.

Adjusted EBITDA was \$41.5 million or 24.6% of value-added sales, down 4% compared to the prior year period. This decrease was driven by lower volume and unfavorable mix, partially offset by strong operational performance. Looking out to the second half of 2025, we expect to see continued strength across the aerospace & defense and energy end markets. In addition to higher volume, we expect to see continued strong operational performance and cost management.

Now, turning to Electronic Materials on Slide 13, value-added sales were \$76.1 million, down 6% from the prior year, driven by lower semiconductor sales to China. Excluding this impact, the remainder of the semiconductor market was up 6% from prior year, signaling market strength with improving demand across many subsectors.

EBITDA excluding special items was \$17.8 million or a record 23.4% of value-added sales in the quarter, up 4% from the prior year with 230 basis points of margin expansion. This record margin and year-over-year increase was driven by continued operational performance, including the impact of our cost improvement initiatives and strong price mix despite lower volume.

Transcript Provided by

As we look out to the remainder of the year, we expect the semiconductor market to improve in the second half and continue the momentum seen during the quarter. While some uncertainty remains around our semiconductor sales to customers in China, we are confident that our balanced and global semi portfolio will help offset some softness there. And as demonstrated so far this year, we expect to deliver considerable margin expansion as demand increases and the impact of our improved cost structure take hold.

Turning to the Precision Optics segment on Slide 14, value-added sales were \$24.4 million, down 5% compared to the prior year and up 14% sequentially. The year-over-year decrease was driven largely by order timing in the defense market. EBITDA excluding special items was \$2.2 million or 9% of value-added sales in the quarter, approaching double-digit margins with 950 basis points of sequential improvement.

The increase was driven by improving performance and the impact of the structural cost changes. This quarter brings the second consecutive quarter of improved results, and we expect to continue this trend as new business initiatives advance, and we continue to improve our business performance.

Moving now to cash, debt, and liquidity on Slide 15. We ended the quarter with a net debt position of approximately \$413 million and approximately \$257 million of available capacity on the company's existing credit facility. Our leverage remains below 2 times as cash flow generation is an important focus. We delivered approximately \$36 million of free cash flow during the quarter, bringing our year-to-date conversion to more than 70% of adjusted net income.

While continuing to invest organically, we also repaid \$26 million of debt and repurchased 100,000 shares at an average of \$78 per share, further demonstrating our balanced and disciplined approach to capital allocation. As we look out to the remainder of the year, we are well on our way to deliver free cash flow that exceeds 70% of adjusted net income with strong first half cash generation and second half cash initiatives on track.

Lastly, let me transition to Slide 16 and address the full year 2025. We are pleased with our business performance in the first half of the year, having delivered strong results despite a volatile macro environment, and we are encouraged by improving market dynamics and new business opportunities won as we look to the second half of the year.

With that, we expect Q3 will be similar to slightly better than Q2, and we are on track to deliver a strong Q4 with improving demand and the timing of defense shipments. As a result, we are affirming our initial guide of \$5.30 to \$5.70 adjusted earnings per share for the full year.

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] And the first question today is coming from Phil Gibbs from KeyBanc Capital. Phil, you line is live.

Q: Hey, good morning.

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Good morning, Phil.

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

Hi, Phil.

Q: So really strong performance in Electronic Materials in terms of their margins. Jugal, you mentioned a new level of performance and you expected some upside there for the full year. How sustainable do we think the recent quarters EM margins are? And then, I also noticed there was a pretty solid sequential pickup in consumer electronics. I know that at times can have a nice mix impact for you, because I wouldn't think intuitively, it would have been a pickup in clad, because I know that's in that piece. But maybe talk about that holistically.

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Yeah. So Phil, Electronic Materials, as you know, we've been talking about that for the last year, year-and-a-half. As the market has been down, our team has done a really nice job of driving operational performance, adjusting the cost structure at the levels that we had. What that has done now, of course, is that as the volumes are starting to pick-up, we are starting to see benefit of that. And, we started with volumes picking up in the logic and memory section, but now volumes are starting to pick up in power. They're starting to pick up in our data storage.

And, I think that's giving us confidence, and it's leading to these improved margins that we saw here in Q2. Certainly, 23.5% type margins are not necessarily the type of margins that we think we can deliver every quarter, but it's very, very encouraging for us to see this. And, I think the improvement is going to continue. I believe that we're going to have a good year-over-year performance and margin expansion in this business, especially as the market continues to improve. So, we're very encouraged by where Electronic Materials is and very encouraged with, I think, where it can go the rest of the year. But I think also importantly, in 2026 and 2027 as we would expect the market to continue to rebound.

I think with consumer electronics, one of the reasons that the uptick took place is a little bit more shipments for our PMI business. As we've indicated that our full year is in line with what the customer has communicated to us in the past. So, there's no real changes on a full year basis, but there certainly is always timing issues that happen between quarter-to-quarter. So nothing abnormal, I would say, there, but we're continuing to drive performance, of course, across all of our markets.

Q: Thank you, Jugal. Appreciate that. And then on energy, you talked a bit about that in your prepared remarks. It looks up a decent bit half-on-half versus last year. And I know that there's a couple of sub-segments within your energy business and maybe talk a little bit more about what you're seeing there and what has you excited? Thanks.

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Yeah. So as you know, we've had traditional energy. We're an impactful player in the oil and gas market. Our content per rig has continued to improve. We provide, in fact, more content, especially as the new drilling technologies come on board and more and more electronics and more and more AI is implemented on the traditional energy side. So that makes us feel good, I think, in terms of that side of it.

But last couple of years, we've talked a lot about alternate energy, new sources of energy, in particular, clean nuclear energy. We've talked about our partnership with Kairos. But in addition to that, we have a number of other initiatives that we're involved in that we're not able to talk about the customer names, but we are involved in those here in the U.S. as well as globally. And we're excited about that. We're excited about where that can take us over the next 3, 5, 7 years, because as we know, the trend and the world's expectations of energy is increasing.

The demand is increasing at a rapid rate and the world has to be able to conform to that demand. And I think we are a key player with our materials in the energy sector. So, not only are we excited about our content on the traditional energy side, I think we're even more excited about the role that we can play on the new sources of energy that I think are coming forward with the number of different projects that we have.

Q: Thank you. And then lastly for me, clearly outlined the tariff risks or potential tariff risks associated with China last quarter. Looks like you've essentially believe you fully mitigated that in the existing outlook. And just curious from your perspective holistically, what has changed and what is giving you confidence in the landscape other than just the cyclical pickup in the semis business overall? Thank you. Good luck.

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Yeah. Well, as you know, at the time that we did our Q1 earnings, there were substantial tariff rates, both for material coming into the U.S. and material going from the U.S. into China. Changes happened during the quarter, where those rates were reduced significantly. As a result, we were able to get some product out still in Q2 that initially we had forecasted that we may not be able to get out. We never really stopped producing. We wanted to make sure that we were prepared in case if there were changes to the tariff environment, and certainly, there were, and we were able to take advantage of those.

Now, we still have some level of impact in Q2, not to the level that we had initially expected. And we expect that there will still be some level of impact in the back half of the year as well. However, I think I'm really, really proud of our team for driving operational improvements, commercial improvements to our business, so that we can make sure that whatever impact that we think we may still have in the second half of the year, we're going to be able to offset that impact and deliver our original guide.

Our incoming order rates are up 4% from the first quarter to the second quarter. Non-China semi is up 15% sequentially. We have record defense bookings of \$75 million. Our space backlog is double what it was at the same time last year. New energy sales, which I just talked about, are up. We've had more new energy sales in the first half of this year than we had all of last year. So all those types of things, I think, give us encouraging signs of where things are headed in the second half of the year, and I think where we could be positioned for 2026.

So, certainly, a lot of hard work by our team. We're in no way out of the woods, because there is a lot of uncertainty that's still out there, but certainly encouraging to see the results for the second quarter and what it may do for us then in the back half of the year.

Q: Thank you.

Operator

Thank you. The next question will be from Daniel Moore from CJS Securities. Daniel, you line is live.

Q: Good morning, Jugal. Good morning, Shelly. Congrats on the excellent results, and thanks for taking questions.

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Thanks, Dan.

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

Thanks, Dan. Good morning.

Q: Maybe just talk a little bit more about Konasol. Tell us a little bit more about the facility and the capabilities you're acquiring relative to your deposition capabilities here in the U.S. And, how do we kind of think about either current revenue EBITDA or the scope of the opportunity set over time?

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Yeah. I think this is a great move that our team has been able to make. As you know, we've been talking, Dan, for the last few years about continuing to gain more capacity and capability outside the U.S., particularly in our semiconductor business. The largest semiconductor suppliers tend to be in Asia. We want to make sure we're

local, and we're providing the local support to those customers. Konasol fits right in for that. It's a facility in Korea. We're able to support not only the Korean chip manufacturers, but also chip manufacturers in Taiwan, in China, in Japan, et cetera. And it really gives us a full value stream for our tantalum business, but it also gives us a facility that we can build on for our other semiconductor business as well down the road. So, we were able to close on that here in the second quarter.

Now, we're really, really excited and busy about making samples and qualification products that we can give to those many customers in the Asia region. As you know, in this space, of course, it takes a little time to get the qualifications done. So perhaps in some cases, at 6 months, other cases in maybe 12 months. We would expect to see some level of sales starting in the 2026 timeframe and the associated EBITDA with that. But it positions us very well for, I think, the general growth that we see that we always talk about for the semi space over the next 3 to 5 to 7 years.

Q: Very helpful. And just sticking with semi. Obviously, you described very well some of the green shoots and improvements you're seeing here or at non-China. Maybe talk about what you're seeing or hearing in China specifically and any confidence in a return to growth as we think about 2026 and beyond?

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Yeah. Well, first of all, to your point about the green shoots, yeah, we started to see the green shoots in the logic and memory side, maybe a couple of quarters back. But what's really encouraging to us, I think, is the growth and sort of the green shoots that we're starting to see on our data storage business, on our power semiconductor business, our communications devices business, because that's at the heart of our business in the Electronic Materials business. It contributes good – obviously, on the top-line, but also very good on the bottom line. So we're very, very encouraged with where things are starting to develop. I mean we really think that that trend can continue here in the back half of the year.

With regard to China, China, as you know, has been developing their own semi supply chain for a number of years now. They've put a lot of effort into it, and I think they've made great progress along with, of course, the full manufacturing or final manufacturing for the semi side. They're also doing a great job of putting their own supply chain in place. So certainly, we want to be involved in that China semi manufacturing over the long-term. But, we also recognize that there will be competition from the local players as they gain speed.

So I think for us, we're looking at the global market, the investments that are going on in the U.S., the investments that are going on in Europe and of course, the investments that are going on in Korea, Taiwan, et cetera. And in general, we believe that semi will continue to be mid-single-digits to high-single-digits growth market for the foreseeable future.

Q: Super helpful. Last for me, and I'll jump back. Just kind of it sounds like Philip Morris or PMI, no changes to the kind of full year outlook. Any update on potential

timing around Phase 2 of precision clad strip project and what you're hearing in terms of from the FDA, et cetera? Thanks again.

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Yeah. So the full year, I mean, like we indicated, we expect the full year to be in line with what we have communicated before. We're on track with that. Typically, we stick with them in Q3, sometimes maybe early Q4 to start talking about the following year. So, we'll do that in our meetings with them and start to have an understanding of what their expectations are for the next year. They announced last week, I mean, in the earnings call that they are continuing to work with the FDA to gain approval. Whether they're able to get that this year or next year is obviously a discussion that they're having with the FDA and what they can do regardless of that. But certainly, we are very well prepared so that once they do get the approval, then we're able to support them as needed.

Q: Very good. Appreciate the color. Thanks again.

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Thanks, Dan.

Operator

Thank you. The next question is coming from Mike Harrison from Seaport Research Partners. Mike, your line is live.

Q: Hi. Good morning. Congrats on a nice quarter.

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Thanks, Mike.

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

Thanks, Mike.

Q: I wanted to go back to the margin performance in the Electronic Materials business. It kind of sounds like while you're expecting some improvement, maybe Q2 is kind of a high watermark. And, I guess I just wanted to understand what kind of temporary or unusual factors could be playing into the margin performance? And specifically, I was curious, is the strength outside of China, something that is a positive for mix, meaning that some of your inside China business is actually a lower margin business than outside?

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

Yeah, Mike, let me start with that one. So, you're hitting on some good points there. With Electronic Materials, the performance has definitely been improving. But as you know, it's not really consistent quarter-to-quarter within a very small band as to what those margins are. And there's different factors but mix certainly is one of the

larger ones. As you know, sometimes we talk about our precious metals business versus our non-precious metals business as those carry different margin profiles. But regionally as well, China does tend to be a lower mix item. So, when our sales are stronger on the other items, that would be a positive mix item.

Q: All right. That's helpful. And then within the Performance Materials business and that precision clad strip business, I think we just kind of touched on it, but I was hoping to get an update on that that new precision clad strip facility and kind of where we are in terms of Phase 2 being fully up and running and kind of what that looks like in terms of capacity and utilization? And then the other piece of that is the old precision clad strip facility. Is that still producing anything for PMI? Or maybe just give us an update on where you are in the process of filling that old facility with maybe some new clad strip business?

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Yeah. So first of all, let me just talk about the old facility, the legacy facility. As you know, that facility produces some level of material for PMI, in fact, the majority of the facility is non-PMI. We produce material and products there for automotive customers, consumer electronics customers, various other type of markets, and we've been doing that for years. So, we are still producing material there. And the reason for that is there's a little different nuances on the type of material, and that facility is better equipped to produce one type of material versus another type of material, and so we are still doing that.

And then with regard to, I think, the new facility, like I indicated, I mean, our discussions with PMI will take place over the next 3 to 6 months in terms of what they're looking from us for next year. We will be prepared at whatever level that they want. Certainly, if they are able to enter the U.S. market or if they're able to enter other markets and they have an increased set of volume, we will be fully prepared to do that. If they want the same level of product from us for some other reason, we'll be prepared to do that. I think our position with them is we have the facility, we have the capacity, we have the people, and we'll be prepared to support them as they would like once we have the discussions with them over the next 3 to 6 months.

Q: But just to clarify, is the equipment associated with the Phase 2 of that new precision clad strip facility, is that equipment in place already? Or are there some pieces of equipment or lines that you would need to add if, in fact, the orders from PMI were expanding in conjunction with an FDA approval?

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

No. The facility is fully ready. We have the equipment. It's qualified, and we would be prepared to produce as we got orders from them.

Q: Perfect. And then last question for me is just on the Precision Optics business. You had really nice sequential earnings improvement there and kind of some recovery there. Just curious, do you expect that better performance to continue? And can you

maybe give us a little bit more color on how you've engineered a turnaround, what seems to be relatively quickly?

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Yeah. We're really, really pleased with, I think, the progress that this business has made. As you know, we've had some challenges in this business. We acknowledge that. And, I think we've taken strong action, including leadership change along with, I think, a number of different other structural cost changes, portfolio adjustments and so on. And we're very, very pleased with the progress that this business has made over the last few quarters reaching almost double-digit EBITDA margins in Q2. We've indicated that we continue to expect sequential improvement. And so that's what we're going to strive for here in the back half of the year is to drive continuous improvement in Q3 and then in Q4 and, of course, into next year.

I just want to remind you, Mike, and I know we've talked about this, is that just a few years back, this business was 20% plus EBITDA margins for us. And our goal has not changed. Our goal is to return the business to that level of EBITDA margins. Certainly, it will take some time. But we're very, very pleased with the level of turnaround that this business has given to us so far.

Q: All right. Thanks very much.

Operator

Thank you. The next question is coming from Dave Storms from Stonegate. Dave, your line is live.

Q: Good morning. Thank you for taking my questions.

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

Hi, Dave.

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Good morning, Dave.

Q: Good morning. Just wanted to dig into a couple of the end markets here. It's noted that automotive saw a strong sequential quarter from Q1 low point, but you're still seeing some continued market softness. Just would love to get your thoughts on what your outlook is for that market for the rest of the year? Should we continue to see maybe sequential growth? Or is this maybe a plateau before the next leg up?

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Yeah. Auto, I think as a market for us, has been quite challenging the last couple of years. And certainly, Q1 was the low point for us. We saw encouraging signs here in Q2 sequentially of 15%. We would expect that in the back half of the year, we would be somewhere in the flat to probably slight increases in the back half of the year. I think this market continues to be a bit choppy. There are still some headwinds, I

would say, in the European market and certainly in the U.S. and changes have happened between EV and hybrid and traditional ICE.

And so, I think, the choppiness in the auto market could continue for us. But at the same time, it's become a smaller market for us. And so, I think, the impact to our company from the choppiness is much less. We're very encouraged with what we are seeing on defense and on space, on commercial aerospace, the semiconductor market, the energy market. I think we are very, very impressed and pleased with where those markets can go over the next 3 to 5 years. And automotive, we'll just monitor and support as needed.

Q: That's perfect. And that actually brings me to my next question around the defense backlog. Just hoping if you could give us a little more maybe texture, time line and burn rate around that, maybe what the margins look like compared to current margins? Anything like that would be very helpful.

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Well, the defense market is a very positive mix market for us. So, we enjoy improved performance, I think, on a margin level from the defense market than perhaps some of the other markets. Like we indicated, we have \$75 million of bookings approximately in the first half of this year. That's up about almost 30% on a year-over-year basis for defense. And then, we see a tremendous number of new inquiries, much more than what we have seen in the time that I have been here in the company for defense. There's an increased level of activity from U.S. defense, increased level of spending that's happening in Europe, and that's resulting in, I think, a higher activity and certainly increased activity from some of the countries in Asia as well.

Our non-U.S. portion of the defense business continues to grow based on all these initiatives. So, I think the level of activity, we expect to continue to increase in the back half of the year, and our expectation is to be able to make sure we're capturing as much of this business as possible and supporting our customers.

Q: Understood. Thank you for the commentary.

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Thanks, Dave.

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

Thank you.

Operator

Thank you. And the next question will be a follow-up from Phil Gibbs from KeyBanc Capital. Phil, your line is live.

Q: Thank you. Just curious in terms of the big beautiful bill, if you've got any cash tax savings associated with that either this year or next year?

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

Yes. Good question. So, we've been going through that, as you can imagine, in some detail and taking a look initially at where we think the benefits are and maybe where we won't have as much benefit. We get a lot of questions around the bonus depreciation. On the bonus depreciation itself, it's possible that could give us some benefit, but it's intertwined with our FDII deductions, our foreign intangible income deduction. So, we've got to model that out and really decide where we may want to take the 100% bonus versus a lower amount, but that could be beneficial, as you said, from a cash tax perspective.

But there's other areas around interest, the deductions we can take there that are beneficial. And then, as you know, the production tax credit that we have, that we enjoy, is currently now scheduled to wind down by 2031. That item could change administration to administration. But right now, before it had no end in sight, and now it's showing that it would wind down by 2031.

Q: Thank you. And then, you've talked a lot about the strength in defense. Obviously, it's a critical imperative for this administration. Has there been any discussion around repletion of the strategic stockpiles of beryllium in the country by the government? I don't know where those inventory levels stand, but I would imagine given the activity we've seen globally the last few years, they probably have not gone up. So, just anything you have there in terms of your commentary or views. Thanks.

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Yeah. Phil, as you know, a large part of our defense business does rely on our beryllium capability and what we're able to do. And so, I can tell you that we are actively involved in discussions with the Defense Department, but really all parts of the defense area in the country as well as, I think, with the primes and beryllium's supply and overall stockpiles and other types of, let's say, things that are related to this without going into a lot of detail that I can't get into. But, we're involved in really all the discussions that are there on defense.

Q: Thank you.

Operator

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

Kyle Kelleher - Director of Investor Relations and Corporate FP&A, Materion Corporation

Thank you. This concludes our second quarter 2025 earnings call. 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. Thank you for your participation.