

Transcript of
Materion Corporation
Materion Third Quarter 2025 Earnings Conference Call
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Participants

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Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation
Shelly Chadwick - Chief Financial Officer and VP of Finance, Materion Corporation

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Presentation

Operator

Greetings, and welcome to the Materion Third Quarter 2025 Earnings Conference Call. At this time, all participants are on a listen-only mode and a question-and-answer session will follow the formal presentation. [Operator Instructions]. And please note, this conference is being recorded.

I will now turn the conference over to your host, Mr. Kyle Kelleher, Director, Investor Relations and Corporate FP&A. Sir, the floor is yours.

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

Good morning, and thank you for joining us on our third quarter 2025 earnings conference call. This is Kyle Kelleher, Director, 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 through the download feature under 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

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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 press release we issued this morning.

Additionally, comments regarding earnings before interest, taxes, depreciation, depletion, and amortization, net income, and earnings per share reflect the adjusted GAAP numbers shown in Attachments 4 through 8 in this morning's press release. The adjustments are made in the prior year period for comparative purposes and remove special items, noncash charges, and certain discrete income tax adjustments.

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

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Thanks, Kyle, and good morning, everyone. I'm pleased to be with you today to discuss our third quarter results and to provide an update on what we are seeing across our businesses and end markets.

We achieved a couple of very important milestones in the quarter, including all-time high EBITDA margins of 27% in Electronic Materials. This reflects the power of our improved cost structure, strong operational performance, and new business initiatives as the semiconductor market continues to recover.

In addition, the transformation of Precision Optics is tracking ahead of our expectations, and we saw a return to double-digit EBITDA margins with a significantly better cost structure and a nice step-up in sales.

At the company level, our sales were up roughly 1%, with a strong Electronic Materials and Precision Optics results partially muted by some equipment downtime challenges that limited shipments in Performance Materials. These challenges are being addressed, and we anticipate more normalized production levels as we finish out the year.

Despite the shortfall in Performance Materials, we delivered 21% EBITDA margins for only the second time in our company's history. Our team is making great progress towards our new midterm target margins of 23%.

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In addition to our strong financial performance in the quarter, we are also pleased with the step-up we're seeing in incoming order rates across the company. Overall, our order rates are up more than 10% sequentially and with the key markets of semiconductor, defense, space, and energy up 20% year-to-date. These markets are seeing strong secular demand growth, and we are developing products and partnerships to supply the materials that are critical to their performance.

Semiconductor has long been a leading market for us, where we have made strategic organic and inorganic investments to develop the right footprint and material set. We are starting to see a cyclical recovery taking shape, led by the proliferation of AI. Excluding China, our semi business is up 7% year-to-date, with sales into high-performance memory applications increasing more than 30%. In our ALD portfolio, we have developed molybdenum-based products that are in high demand given their performance in smaller node chips. We are seeing significant interest in this product set and are working with new and existing customers as our production ramps.

Energy demands are increasing at a rapid pace, and this trend is closely related to the proliferation of AI. The number of data centers is expected to double in the next five years, with each center's energy usage also doubling. Combined with other drivers of energy usage, it is fair to say that energy is going to continue to be a great market for Materion. We continue to have a strong position in traditional energy, and we have exciting opportunities to grow with new energy that will bring about the higher volumes of energy required to supply tomorrow's demand.

In the past year, there has been a step-up in the market's interest in nuclear solutions. Small modular reactors enable regional energy independence and efficient nuclear space propulsion as well as remote battlefield autonomy for defense applications. We work with a number of customers on these types of applications and expect to see continued growth.

We are also partnering with companies who are aggressively developing breakthrough technologies to expand total energy supply. Our partnership with Kairos Power to supply materials to produce Flibe, a molten salt coolant critical to the performance of safe vision reactors, is progressing well.

Additionally, we announced an exciting new supply agreement with Commonwealth Fusion Systems, the leading and largest commercial fusion energy company, to provide beryllium fluoride for their breakthrough fusion energy technology to be used in their ARC power plants. We will begin shipping product this year.

Defense is another important area for our company, and our materials play a critical role in national security for the U.S. and its allies. The current U.S. administration has put a pronounced focus on defense

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spending and has outlined its priorities, including the Golden Dome, space, maritime, and nuclear microreactors for portable energy use. In addition, as geopolitical tensions persist, the U.S. is looking to replenish and expand its stockpiles and as a result, has increased budgetary spending to almost \$1 trillion for next year.

Outside the U.S., many allied countries are also increasing their defense budgets and have committed to certain spending in the U.S. as part of trade agreements. As a result, we are seeing record defense bookings this year, up roughly 40%, and we're currently working a total of about \$150 million of RFQs that should result in meaningful new orders.

The commercial space sector represents exciting opportunities for Materion as this market is influenced by a number of the macro trends impacting our other markets, including AI, connectivity and defense technologies.

The number of satellite launches has increased exponentially with more than 260 launches last year. We have secured meaningful wins with space propulsion applications and are winning new applications as well. We have a number of products being introduced at our large space customer, and we have relationships with the smaller players looking to grow in this market. Our sales in the space market have increased fivefold in just three years, and we see strong opportunities as we move forward.

As we look to the balance of 2025, we expect to finish the year on a positive note, driven by our strong order book and improved operational performance. I would like to thank our global team for their relentless focus on satisfying our customers' needs and driving our company forward.

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

Shelly Chadwick - Chief Financial Officer and VP of Finance, 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 third quarter, value-added sales, which exclude the impact of pass-through precious metal costs were \$263.9 million, up 1% organically from prior year.

Electronic Materials experienced 7% organic growth, led by strength in semiconductor and Precision Optics was up 21% with new business wins. This growth was partially offset by lower volume in Performance Materials, where we experienced some temporary equipment downtime at our largest facility, limiting sales by roughly \$10 million in the quarter. When looking at earnings per share, we delivered quarterly

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adjusted earnings of \$1.41, flat with prior year and up 3% sequentially.

Moving to Slide 11. Adjusted EBITDA was \$55.5 million, down 2% year-over-year. This decrease was driven primarily by lower volume related to the equipment downtime within Performance Materials, partially offset by higher volume and favorable price/mix in Electronic Materials, along with the improved performance in Precision Optics.

Despite the muted shipments in PM, we achieved 21% EBITDA margins for the second time in the company's history, demonstrating good progress towards our new midterm target of 23%.

Moving to Slide 12. Let me review third quarter performance by business segment. Starting with Performance Materials, value-added sales were \$157.1 million in the quarter, down 4% year-over-year. This decrease was driven primarily by equipment downtime and shipment timing in Defense and Energy, partially offset by higher hydroxide shipments and growth in space.

Adjusted EBITDA was \$38 million or 24.2% of value-added sales, down 18% compared to the prior year. This decrease was driven primarily by lower volume and operational performance, partially offset by cost management.

Looking out to the fourth quarter, we expect to see significant top line improvement with more normalized production volumes. We also expect strong sales into Defense and Energy as a result of both market seasonality and new business initiatives. With the higher volume and improved operational performance, we expect to see significant bottom line improvement from the third quarter results.

Next, turning to Electronic Materials on Slide 13. Value-added sales were \$79.7 million, up 2% from the prior year and up 7% organically. This increase was driven mainly by non-China semiconductor sales as power and data storage device demand continues to improve.

EBITDA, excluding special items, was \$21.6 million or a record 27.1% of value-added sales in the quarter, up 38% from the prior year with 700 basis points of margin expansion. This record margin and year-over-year increase was driven by higher volume, strong price/mix, improved operational performance and some favorable onetime operating-related items.

As we look out to the fourth quarter, we expect top line improvement driven by the continued upturn in the semiconductor market as this market continues to recover and benefit from favorable macro trends led by AI and global connectivity.

Turning to the Precision Optics segment on Slide 14. Value-added sales were \$27.1 million, up 21% compared to the prior year and up 11%

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sequentially. This year-over-year increase was driven largely by new business wins, primarily in aerospace and defense.

EBITDA, excluding special items, was \$3.2 million or 11.8% of value-added sales in the quarter with almost 1,000 basis points of year-over-year margin expansion. The increase was driven by higher volume, favorable price/mix and the impact of the structural cost changes. This quarter marks the third consecutive quarter of improved bottom line results and a return to double-digit EBITDA margins. We expect this trend will continue as new business initiatives advance, and the transformation continues to unfold.

Moving now to cash debt and liquidity on Slide 15. We ended the quarter with a net debt position of approximately \$441 million and approximately \$214 million of available capacity on the company's existing credit facility, with leverage slightly below the midpoint of our target range at 2x.

While no share buyback activity occurred during the quarter, I'm pleased to share that the Board of Directors authorized a new \$50 million stock repurchase program during the quarter. While organic initiatives remain our top capital allocation priority, it is important we have this tool available to us.

As we look out to the remainder of the year, we remain on track to deliver free cash flow of roughly 70% of adjusted net income with strong cash generation year-to-date and fourth quarter cash initiatives on track.

Lastly, let me transition to Slide 16 and address the full year 2025. With our strong performance year-to-date, increasing order rates and new business initiatives on track, we remain confident in our ability to deliver \$5.30 to \$5.70 per share and are affirming our prior full year guide.

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

Operator

Thank you. At this time, we will be conducting our question-and-answer session. [Operator Instructions] Thank you. Our first question is coming from Phil Gibbs with KeyBanc. Your line is live.

Q: Hey, good morning.

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Good morning, Phil.

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Shelly Chadwick - Chief Financial Officer and VP of Finance, Materion Corporation

Good morning, Phil.

Q: So with regard to the full year outlook, you've maintained the range. But just curious in terms of now having better visibility with a couple of months left and you've got 10 months effectively behind you. Maybe give us some flavor why you didn't narrow the range? It's pretty wide for the implied fourth quarter results. So just trying to hone in on that a little bit better.

Shelly Chadwick - Chief Financial Officer and VP of Finance, Materion Corporation

Yes, I'll start, Phil. Thanks for the question. So we're looking forward to a strong Q4. As you know, we always have kind of a nice end to the year with the strong defense orders, and we believe we're on track for that. When we think about why we didn't narrow the range, there's still some uncertainty for us around China. Hopefully, we will see that settle down in the coming days and weeks. But right now, that's not certain. And with the government shutdown, that could impact the timing of some of the orders that we're waiting on. And so when we thought about that, we said, why don't we leave the range where it is, but we are on track for the midpoint.

Q: Thanks Shelly. And then in terms of the new arrangement with Commonwealth, any thoughts you could provide us in terms of what that could mean to you all financially and when some of these shipments step up more materially?

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Yes. Phil, I mean, we're very, very excited to have this agreement. As you know, a number of years ago, I think it was in 2020, we had signed an agreement with Kairos Power as they were working on new energy initiatives. Now we are excited to announce this agreement with Commonwealth Fusion. We've been working with them actually for a number of years, but we were able to get that into an agreement here in the last couple of months.

We are going to be supplying material to them starting this quarter in Q4 and then into next year. We expect it to be a few million this year, and then I would say more of an annualized run rate next year. So this is very exciting for us because now we've got Kairos Power on the vision side, CFS on the fusion side. So we've got sort of both sides covered. And I think they're clearly the two leading companies in the world on this new energy initiatives.

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Shelly Chadwick - Chief Financial Officer and VP of Finance, Materion Corporation

Yes, I think you also hit on what can we expect to see from that Phil. And as Jugal mentioned, we will start shipping on that this year, expect to say maybe a few million to contribute in Q4. And then as we look to next year, you can think about that sort of annualizing. So good sized impact on the next couple of years. As you can read in their release, they're still in development phases. So that could be a very large step-up as you get into kind of 2030 time frame. But right now, it's a nice win for us, and we look forward to working with them.

Q: Thank you. And then just one more follow-up, if I could. The onetime items that helped margins in EM in the quarter in terms of the timing, maybe just highlight the size of that impact, so we can have a better bridge to what maybe more normalized margins there are? Thank you.

Shelly Chadwick - Chief Financial Officer and VP of Finance, Materion Corporation

Yes. Sure, Phil. So we were really pleased with the EM performance in the quarter, and it was a strong mix. The volume was good. The cost structure is really contributing in terms of being where we wanted it to be. But yes, we did get a little bit of a bump up from some onetime items that are all operating related. So in our precious metals process, we refined some of the leftover material. And some of that we send out, some of it we do in-house. When we got that material back, it had a higher concentration of precious metals than we were estimating. And so there was a pickup, call it, \$1 million or so around that number that we got to record in Q3 that helped, but really should be in our year-to-date results anyway.

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Yes. But I think, Phil, just to add, I think, to what Shelly was talking about, I mean, this business has improved significantly throughout the year with all the improvements that it's driven in the cost structure over the last 18, 24 months. As you know, and then suddenly market was down. So now for the last two quarters, it's been 20-plus percent EBITDA margins, so I mean, almost 24% in Q2 and now 27% in Q3 from the historical 20% or less margins that it used to deliver. So a really, really nice step-up for this business. And clearly, we have high expectations of this business as we go forward.

Q: Thank you.

Operator

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

Q: Hi, good morning.

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Hi, good morning, Mike.

Shelly Chadwick - Chief Financial Officer and VP of Finance, Materion Corporation

Good morning.

Q: I was hoping we could address a handful of questions I had around the equipment downtime that you mentioned in the Performance Materials segment. Can you give us a little bit of additional detail on the nature of the outage or what kind of product line it was affecting? And is the outage or downtime resolved now? Or if not, when do you expect to resolve it?

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Yes. Mike, we had a couple of pieces of equipment in our largest plant where we process both beryllium and non-beryllium materials. The equipment downtime issues that we had are mainly resolved. We're back up and running. And so we expect to be able to catch up a majority of the sales into Q4 and perhaps a little bit into Q1. But for the most part, we're going to be able to do that here in the Q4 time frame.

As you know, we've got a fully vertically integrated value chain all the way from the mine into the finished material. So any type of a hiccup that we have on one or two pieces of equipment ends up resulting in a fairly impactful delivery issue. And it was around \$10 million in Q3. I mean, at a company level, it's about 4 points of growth. I mean, you can look at it that way, that I think that impacted. We are -- to your point, we are back up and running on both as we got that addressed. And like I said, we expect to be able to make up the sales mostly in Q4 and perhaps some in Q1. But it's something that the teams have been able to resolve.

Q: All right. And just to follow-up on that. It seems like maybe this disruption was not as impactful as what you guys had happened in the first quarter of 2024. But this is the second time in a couple of years that you've had a disruption or an unplanned outage in your Performance Materials segment. So I'm curious, is this just part of doing business in kind of a mining and conversion type of market that you guys serve? Or are there actions that you think you can take that might help you improve operational reliability?

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Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Yes. So, to your point, it is a lesser of an impact than the first quarter of 2024. Like I mentioned, when we're vertically integrated, smaller equipment issues that we have end up impacting kind of our overall production schedule. So it is something that, because we're fully vertically integrated, I think it tends to impact this business maybe a little bit more than some of the other businesses that we have. At the same time, I can tell you that we are very, very focused on making sure that we're making the type of improvements that we can on the equipment. Some of the equipment is legacy equipment, so that we can minimize these or even eliminate them as we go forward.

So it is a focus area for us, both on finding the right type of capital improvements that we can drive into the business, along with just general maintenance and general upkeep of the equipment. But it does tend to be a little bit more in this business than clearly our EM business or our optics business.

Q: All right. Very helpful. And then I was hoping to also ask kind of a broader question about 2026 outlook. I know it's a little bit early, but when you talk about the order books that you have and some of the backlog in your key growth markets, presumably, we see some improvement in semiconductor, presumably, we see some improvement from the Precision Clad strip customer. And obviously, you've taken a lot of cost actions. It seems like there is really good earnings momentum into next year. And I was hoping you could just give us maybe some initial thoughts on how we should think about the top-line and bottom-line growth in 2026?

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Mike, maybe I'll start a little bit, and then Shelly can jump in and talk more as well. We are very excited about some of the key markets, the high-growth markets that we're engaged in, and the portfolio that we have. We've included a slide this time that talks about our activities in semiconductor and energy and defense, and space, and how order rates for those key growth markets are up approximately 20% on a year-to-date basis. We've got the right type of portfolio across those four areas -- of portfolio that goes across all three of our businesses.

We talked about the Commonwealth Fusion announcement, for example, that goes across energy. We've got over \$150 million of open RFQs that we're engaged in on the defense side. You'll recall in the last earnings call, we mentioned it was \$100 million. So that's actually increased from \$100 million. And by the way, some of that we closed, new RFQs got added in. And now on top of that, we have another \$50

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million of RFQs that we've added. So we have more than \$150 million of open RFQs in defense and so on and so on. So we're very excited about those high-growth markets, I think, as we enter into 2026 and into 2027, and we look at the sort of the midterm outlook in those areas.

We certainly have challenges that we need to be addressing. China, as a market for us, is a challenge. We've highlighted that, I think, in the last couple of calls that we have. Our sales into China are down on a year-over-year basis, just based on all the geopolitical issues that are going on. We expect to continue to see pressure on our China business. But what our goal is, is to offset those pressures with these high-growth markets that we're focused on in the U.S. and the rest of the world.

So I think in total, our business is moving forward. We've demonstrated that, I think, throughout this year. Our expectation is to move it forward again in Q4 and then continue to do that over the next two, three years with the portfolio set that we put in place. So in general, I mean, I'm not going to address 2026, of course, in particular, just because there will be a time when we do address 2026. But I think when we look at the overall midterm time frame, we're very excited about where the business is.

You mentioned Philip Morris. We're actively engaged with them on understanding what's going to happen next year. And as we get a better understanding of that this quarter, we'll be able to model that into our 2026 and go forward. We are, of course, monitoring with them what the FDA approval is. So far, they have not announced the FDA approval. So we don't know if they have received it or have not received it yet, and we'll obviously have to wait and see what they say about that. But certainly, the later that goes, of course, it would impact the sales into 2026 and perhaps push those out into 2027. Of course, the sooner they're able to get that, then that could have a potential sales uptick in 2026.

So we'll have to see kind of where that -- the Philip Morris business settles out at. But I think in total, when you put everything together, we've got a lot of upside opportunities that can help address some of the challenges that we have, whether it's China or some other areas that are going on. So, I think we've got good momentum in the business this year that we've demonstrated, and I expect that momentum to continue into 2026, 2027 and into our midterm outlook of 23% EBITDA margins.

Q: Very helpful. Thank you very much.

Operator

Thank you. Our next question is coming from Daniel Moore with CJS Securities. Your line is live.

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Q: Thank you. Good morning to you. Good morning, Shelly. Thanks for taking questions.

Shelly Chadwick - Chief Financial Officer and VP of Finance, Materion Corporation

Hi, Dan.

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Good morning, Dan.

Q: Start with similar to Phil's question, but on Precision Optics. You're back to double-digit adjusted EBITDA margins, a big jump year-on-year. Can you just give a little more granularity on cost and operating improvements that have been made? And are double-digit margins sustainable as we look to 2026 and beyond?

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Yes. We are very pleased, I think, with the progress that, that team has made in a very short time. I would say our results are tracking sort of ahead of the expectations and sort of the time line that we had established for ourselves. So very pleased with that. We're seeing a good uptick in a number of different markets, the more traditional markets that this business operates in, such as aerospace and defense and industrial, life sciences, et cetera.

But also, we've entered and are making a bigger progress, I think, in some markets that perhaps we weren't focused on in the past, such as semiconductor. We've made inroads into that market. And so, I think from a top line standpoint, we're making good progress. We've made really good progress from the cost structure side with a number of different actions that we've taken over the last 12 months. And I would say, still are looking at actions that we can be taking here in Q4 and into next year.

We've made sequential progress this year, all three quarters. Our goal is to continue to make sequential progress in this business. So having double-digit EBITDA margin is a good start. And I think it's tracking ahead of expectations, but that is not where we just need this business to be. We need this business to contribute to our 23% midterm EBITDA margin target. And so, we're going to continue to focus on that, Dan, and continue to push forward.

Q: Very helpful. Following up on Mike's question, obviously, great detail on the areas, semi, defense, others where you're seeing nice pickup in orders, nice strength, little uncertainty in China. Are there any pockets where you could see maybe detractors in terms of

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year-on-year growth being negative in terms of difficult comps or pieces of the business? Just trying to kind of conceptualize a lot of the arrows pointing toward anything that could be a drag on that growth as opposed to more neutral as we think about next year?

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Yes. Well, I think the auto market, we've talked about this, I think, in the last call as well, right, continues to be a very challenging market for us. In general, I think it's a challenging market. I mean the EV rollout has slowed down quite a bit. I think the growth in China OEMs has been substantial. The Western OEMs have had a very challenging environment in the last one or two years. So, we continue to look at the auto market as perhaps a bit more challenging market for us as we move forward and a bit more opportunistic, I would say, as we put a lot more focus on these key high-growth markets.

So, our portfolio adjustments are real time and our customer adjustments are real time. And so, we're going to do everything we can to make sure that we're capturing these high-growth markets. And in some cases, if we have to go and be a bit more opportunistic in other markets, then we'll do that accordingly.

Q: Helpful. Appreciate the color on the Commonwealth acquisition. Just going back to Konasol, just talk a little bit about what you're seeing since it's been a few months since you closed that acquisition. And just remind us kind of the timeline in terms of what the incremental contribution could like either 2026 or over the next two to three years? Thanks again for the color.

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Yes. No, that's been a very good pickup for us. Our teams have fully gotten involved, integrated the business into our Materion family. We are working with our customers and being able to talk to them about the capability that we bring forward. We have a number of different qualifications that we are involved in with the customers. Our expectation is to go through those qualifications here the rest of this year and into 2026 with the objective of being able to start to see some sales in 2026 and then into 2027 and beyond. So we are, I would say, on track and in some cases, perhaps even a little bit ahead of track on that acquisition.

Q: And then lastly would be just in terms of capital allocation, nice to see the authorization. Just how do we think about where buybacks potentially could fall in terms of rank ordering priorities? Growth has always been a key priority. Balance sheet is down to 2x and generating strong cash. So, you've got flexibility. But just help us

think about how you're kind of rank ordering that as we look out to 2026 and beyond?

Shelly Chadwick - Chief Financial Officer and VP of Finance, Materion Corporation

Yes. Thanks. I'll take that one. So, I think our priorities remain the same. We've been very focused on growth and organic growth. We continue to be very focused on organic growth. The areas that Jugal highlighted will continue to need some investment and provide, as you know, very, very good returns. When we think about the share buyback, it is a very opportunistic tool for us. We had not done share buyback in a number of years.

But when we kind of looked at where the stock was in Q2, it was the right time to go ahead and buy a little bit back, and that proved to be a worthy use of our capital at that time. And we had run the current authorization down to a very small amount. So, it was just the right time to re-up with our Board of Directors. So, we have that tool in our tool belt, but it is not one that we are actively pursuing.

Q: Understood, thank you again.

Operator

Thank you. Our next question is coming from David Silver with Freedom Capital Markets. Your line is live.

Q: Okay, hi. Thank you very much.

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Hi, David.

Shelly Chadwick - Chief Financial Officer and VP of Finance, Materion Corporation

Hi, David.

Q: Hey, good morning. So I have a scatter of questions. I'll just warn you. But first, I'd like to hone in a little bit on your comment about sequential order growth of double digits or better, I believe, in all three of your segments. And I was just wondering from your perspective or would you characterize this sequential -- kind of across-the-board sequential growth.

Would this be reflective of maybe some, I don't know, some deferred activity on the part of your customers, maybe over the last quarter or two in response to the tariff issues and some other things. Or would you characterize the bulk of the new orders as reflective of kind of

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pure organic growth? I mean, how do you think about the kind of broad-based trend of significant sequential pickup in your order book? Thank you.

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Yes. I think I would look at this as primarily, I think, good organic growth that our teams are driving, new business activities that our teams are driving as well as, I think, the overall market growth and market trends that are there. Certainly, there could be some, David, as you mentioned, of some orders that perhaps have been held back and that got released. But in general, we see continued uptick and improvement in our order rates in most of our markets, and in particularly in the high-growth markets that we've indicated.

Q: Okay, thank you for that. Next question would be kind of your take on tariff impacts on your financial results. So if I recall correctly, I mean, you highlighted maybe a \$0.10 to \$0.15 per share negative impact in the second quarter and then up to \$0.50 or more for the back half of the year. And I know that, that initial forecast has been tempered a bit, but we're kind of six months into it now. How do you kind of assess the overall effect on your financial results or operations, however you look at it of the tariff issues to date? I mean, how much of that has flown through what might be remaining, what that might not be offset by price or other actions? And what should we think about, maybe heading into 2026 on a year-over-year basis?

Shelly Chadwick - Chief Financial Officer and VP of Finance, Materion Corporation

Yes, David, as you know, what we've been talking about the most has really been the impact to our China business. And so we think about that more commercially, and what is that doing both with customers reserving orders, but also maybe looking for suppliers that are outside the U.S., right? There's a bit of sort of a tone that, hey, we would rather have suppliers that are outside the U.S., given the volatility and the tone of how things are going in negotiations there.

So right now, when we look at our China business, it's down about 20% year-on-year, year-to-date, and that's meaningful to us. The other side of that, of course, would be raw materials that we are incurring on material being brought in. That's a smaller number, call it, \$3 million, \$2 - \$3 million, in that range. Some of that we're able to bill out through price. Others takes a little bit of time to settle in with customers and work through contracts. But the part that gets most of our attention is China and how that will shake out if some agreements are reached.

Q: Okay. Thank you for that. I would like to ask a question about the margin progression, in particular in Electronic Materials. So 27% is -

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- the high -- not only is it, well, whatever, it's the highest I have in my model going back as many years as it does. And I know that in general, Electronic Materials can often be a very high incremental margin business on incremental sales. But I don't know, I'm not thinking that, that's the case at least just yet. So, whether it's product mix or cost savings or whatever, but what went into this record margin performance this particular quarter? And should I assume that it can continue to go higher, maybe as sales growth continues to progress?

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Yes. Maybe I can start on this, and then Shelly can jump in as needed. This business, as you know, has gone through a downturn for the whole semiconductor market over the last couple of years. The recovery has now started, particularly in the data center business, the high-performance computing memory business, high-performance logic business, et cetera, those have been recovering at a very good rate, and some of the other areas are starting to now catch up.

We took the time over the last year, 1.5 years, two years to really make the adjustments to our cost structure and to the business so that as the recovery happens, we can make sure that the margins are improving. We've talked about making those adjustments. I think when the volumes were at a peak level, it was hard to get some of those adjustments done. But now, having done those adjustments, I think, has allowed us to deliver the type of margins that we're delivering.

In addition to that, of course, our mix is much stronger than the mix that we've had in the past. Certainly, the power segment and the data storage segment gives us a lot more of what we call precious metals mix business, which is a great business for us. The fact that the China business is a little bit lower, I mean, certainly, those margins were not as good as some of the other businesses that we have. So, the mix is certainly a helpful item. But in total, I think we've really made the right type of changes for this business so that it can be a much stronger business going forward.

If you take the 27% that we have here in the quarter that we delivered, I mean, even if you adjust for the sort of that \$1 million or so that Shelly talked about earlier, I mean, you're looking at about a 25% type of EBITDA margin compared to the 24% EBITDA margins that this business delivered in Q2.

So we think that it's the right type of margin profile. Our goal is going to continue to be able to deliver those types of margins as we move forward and to contribute positively to our midterm target of 23%. I believe we're well-positioned to deliver these good margins.

Q: Okay. Thanks. And then maybe just the last one, but you did mention your efforts in molybdenum very much kind of a leading-edge material for thin films and whatnot. I was just kind of thinking, and I don't recall exactly your wording, so I apologize. But is this the type of product where maybe you've developed it in close collaboration with a single customer, and therefore, maybe that customer might have an exclusive access to your technology? Or is it more something that Materion has developed on their own or proprietary basis, and therefore, it could be ultimately available to a large number of your semiconductor-based customers. Just qualitatively, if you could just discuss the nature of that development, and I guess, by extension, the marketing potential down the road?

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Yes. So in some cases, you're right. I mean, we develop our products with collaboration with the customer and perhaps have some sort of an arrangement with the customer. I think in this particular case, ALD in general is a product set that we started working on seven, eight years ago. We started to do organic development of that. We have a number of different materials that we have developed in this area. Molybdenum is one of those materials. We've done that with our investments and, of course, in working with a number of different customers.

So we are selling this product to our customers. We will be marketing it more so as we continue to go forward. We think this is an exciting, exciting product set as we move forward, as it replaces some of the tungsten use that's in the semiconductor market. So we're well-positioned, I think, to take advantage of this across a number of different customers and as we continue to get the pull and as we continue to, of course, push.

Q: Okay. Great. Thank you very much. I appreciate all the color.

Shelly Chadwick - Chief Financial Officer and VP of Finance, Materion Corporation

Thanks, David.

Operator

Our next question is coming from Steve Storms with Stonegate. Your line is live.

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

Shelly Chadwick - Chief Financial Officer and VP of Finance, Materion Corporation

Good day.

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Q: Okay. Just want to start by maybe getting a little more commentary around the timing impacts on defense. With the quarter closing on 9/30, were any of these timing issues related to the government shutdown? And one way or another, how much more maybe impact could we see here from the government shutdown?

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Yes. So in our case, for the third quarter, we didn't have any, I would say, government shutdown related impacts for defense in the third quarter, but we certainly could have impacts of that here in the fourth quarter. We do have a number of contracts that we're working on with the government. We have a process where we actually work on projects well in advance of actually receiving the contracts. That's a normal process that we have in our defense market. And then, as we receive the contract, we make the shipment or we do some sort of recognition.

In this case, we are waiting on a few of those agreements. And we will have to see how those things play out over the next couple of months. But no impact in Q3, could have impact in Q4. Again, from our operational side, we're fully ready. It's just a matter of being able to get those contracts and closing them out.

Q: That's very helpful. Thank you. Turning, maybe, to the impact of China. I know this may be hard to estimate, especially without a deal being reached. It was mentioned earlier that China may be impacted by 20% or so. Is there any sense of how much of that would be recoverable, given some resolution here that removes some of the uncertainty?

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Yes. And like you said, I mean, it's hard to know, right, what the customers are thinking for the out years, 2026, 2027, midterm time frame. But I think in general, I mean, what we are hearing and seeing from our customers is that they want to make sure that they're able to purchase from locations where they have more reliability or more stability. And so if there are some temporary measures that are reached, I mean, we don't know if it's going to be permanent, temporary, some sort of pause. It's hard to know, right? And hard to know what the customers are going to do as a result of that.

But I think in general, I would say our business in China has seen pressure this year. And we are planning as if the pressures will continue as customers look for ways to purchase outside of the U.S. Now we are actively involved in a number of ways that we can actually be that supplier, though outside the U.S. We announced this Konasol

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acquisition last quarter. And so we're looking at any and all ways that we can continue to supply these materials, just do it from outside the U.S. if that's what's necessary.

Q: Understood. That's great commentary. One more for me, if I could. I would just love to hear your thoughts on maybe the volume of opportunities in the energy sector, similar to the Commonwealth agreement. Is this an opportunistic one-off that we'll continue to see once every couple of years? Or do you expect to see more opportunities like this come into the market?

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Well, like we've indicated, we've got the agreement with Kairos Power. We've had that for a while. And now we've announced the agreement with CFS. We are working with a number of different partners in all types of new energy areas. So certainly, if there is additional announcements or additional agreements that we reach, we will certainly talk about that. But we're very excited about having agreements on both vision and fusion for new energy applications.

Q: That's it for me. Thank you very much and good luck for the Q4.

Shelly Chadwick - Chief Financial Officer and VP of Finance, Materion Corporation

Thank you.

Operator

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

Q: Hey, thanks.

Shelly Chadwick - Chief Financial Officer and VP of Finance, Materion Corporation

Hey, Phil.

Q: Yeah, you had mentioned in your prepared remarks about the government potentially looking to stockpile certain resources. Do you think beryllium will be one of those materials? I'm just trying to think of whether or not you expect any pickup in that dynamic. I know that's something that tends to happen to the company from my experience, maybe once a decade, but I know it does happen from certain cycle to certain cycle. So curious to hear your thoughts on that.

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Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Well, I think when we look at the overall defense market with the U.S. defense spending approaching \$1 trillion for next year, the NATO countries increasing their spending to 5% of their GDP by the end of the decade, and then Japan and Korea increasing on an annual basis. I think that drives, I would say, an increased usage of beryllium. I mean many of the defense applications are beryllium-based applications. And so we are actively involved in a number of discussions with various groups on making sure that we have the right level of beryllium and we can produce that and be able to provide that to them.

Now, whether that's done in some sort of a stockpile form or whether that's done in actual materials that are used in various applications, like we indicated the different things that I think the defense department is involved in, we're prepared and ready to do that. So we do have a lot of active discussions, I would say, underway with different entities about how to support in the right way, all the defense needs, which, of course, a big part of that is beryllium-based materials.

Q: Thank you.

Operator

Thank you. As we have no further questions on the lines at this time, I'd like to turn the call back over to Mr. Kelleher for any closing remarks.

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

Thank you. This concludes our third 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, ladies and gentlemen. This does conclude today's call. You may disconnect your lines at this time, and we thank you for your participation.