

Transcript of
Materion Corporation
Materion Fourth Quarter and Full Year 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

Analysts

Michael Harrison - Seaport Research Partners
Philip Gibbs - KeyBanc Capital Markets
David Silver - Freedom Capital Markets
Dave Storms - Stonegate Securities

Presentation

Operator

Greetings, welcome to the Materion Fourth Quarter 2025 Earnings Conference Call. At this time, all participants are 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 & Corporate FP&A, Materion Corporation

Good morning, and thank you for joining us on our fourth 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 and full-year 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 and full-year and following Jugal, Shelly will review the detailed financial results in

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addition to discussing expectations for 2026. 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. It is great to be with you today to discuss our fourth quarter and full-year 2025 results and to provide an overview of our growth expectations for 2026. Our fourth quarter sales were impacted by a quality event with our largest customer. Excluding this event, we delivered very strong financial results led by outperformance on both top and bottom line in our Electronic Materials and Precision Optics businesses.

This performance, combined with new business growth and the momentum we are seeing across our markets, and in our order rates, we are entering 2026 with confidence. Let me first address the quality event. In Q4, our large Precision Clad Strip customer alerted us to a performance issue with our material during their production process.

Our team responded swiftly and decisively, collaborating closely with the customer to identify the root cause. To thoroughly assess and address the situation, we temporarily idled our two Precision Clad Strip facilities allowing us time to implement corrective actions. We conducted a comprehensive evaluation of the issue scope, made targeted modifications to our processes and procedures, and introduced enhanced quality control measures designed to minimize the risk of any future occurrences.

Both facilities came back online toward the end of the quarter and are ramping production, supported by additional resources and oversight. We are determined to deliver quality product to our customer and not impact 2026 planned volumes. The foundation of our company is built upon the strong partnerships we have cultivated with our customers by consistently providing high-quality, critical materials to help

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solve their most complex technical challenges. We take our role as a trusted partner and supplier very seriously. Moving beyond this issue, I am excited to share that we delivered 7% year-on-year organic growth in the fourth quarter, excluding Precision Clad Strip.

Our outgrowth initiatives, coupled with strong end market dynamics are contributing to this level of growth and building our order backlog to continue the trajectory into 2026. Electronic Materials experienced its strongest sales quarter in nearly three years with a 20% increase in VA, driven by accelerating growth in the semiconductor market. This growth is fueled by the rapid expansion of AI technologies, and the rising need for high performance computing and data storage solutions.

EBITDA was up an impressive 50% with 470 basis points of margin expansion, as the power of the work our team has done to streamline and strengthen that business is magnified by increasing volumes and a strong mix.

Precision Optics continued its transformation journey, delivering a 26% increase in sales, marking the third consecutive quarter of top line improvement. The business is tracking ahead of plan, led by new business wins in semiconductor, space, defense, and automotive. This level of growth combined with an improved cost structure, and operational efficiencies, allow the business to reach nearly 16% EBITDA margin.

Performance Materials sales were impacted by the Clad Strip quality event. The business delivered strong margins on a lower sales base, while focusing their energies on getting Clad back online and building a strong pipeline of new business for 2026.

Reflecting on 2025, I am extremely proud of the significant progress we made while navigating some turbulent times particularly in the first half, with the uncertainty around tariffs, and the related impact to our China business. Let me highlight some significant accomplishments which will directly contribute to 2026 performance. Our Electronic Materials business delivered record results with nearly 23% EBITDA margins, up 300 basis points year-on-year. The transformation of Precision Optics achieved 7% year-on-year sales growth, reaching nearly 10% EBITDA margins up almost 800 basis points. And our Performance Materials business reached 25% plus EBITDA margins for the third consecutive year.

Our specialized comprehensive materials portfolio resulted in new business wins which combined with improved market dynamics have led to a 7% year-on-year increase in backlog. More importantly, backlog in the second half of the year improved 12% versus first half. We have seen a significant uptick in order rates, led by our semiconductor business, up 6% year-on-year, 14% excluding China. And we completed acquisition of Konasol's semiconductor manufacturing footprint in Korea, which will position us to deliver local to the leading semiconductor manufacturers.

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Our focus on growing in the new energy market in support of accelerating energy needs resulted in more than doubling sales year-on-year.

For this market, we signed a multiyear supply agreement with Commonwealth Fusion Systems, a leading developer of fusion energy solutions. We surpassed \$100 million in defense sales for the second consecutive year, and have delivered 10% yearly growth since 2020. New business bookings reached nearly \$140 million, highest ever with another \$35 million booked so far this year. And we have approximately a \$200 million pipeline of new business RFQs. These demand levels are aligned with the record levels of global defense spending while the U.S. and allied nations are prioritizing replenishment and modernization.

In support of our accelerating growth in the defense market, we secured a \$65 million investment from a major U.S. defense prime to expand our beryllium capacity. This investment will not only enhance our capacity, it strengthens our strategic partnership with this customer, setting the stage for long-term growth in defense. While we will support meaningful near-term growth with our existing capacity, the new investment will enable us to support continued double-digit growth in the out years.

Looking ahead to 2026, we expect to deliver approximately 15% earnings growth on a strong top line sales growth. New business wins and continued market recovery will further expand our order book, particularly in markets like defense, semiconductor, energy, and space.

We anticipate continued progress toward our mid-term EBITDA margin target of 23%, supported by top line growth, ongoing operational improvements, disciplined cost management, and the benefits of our portfolio transformation. Free cash flow generation is expected to strengthen as we optimize working capital, make thoughtful investments, and realize higher levels of profitability.

The transformation of Precision Optics will advance further, unlocking additional growth and margin expansion opportunities. Electronic Materials will continue to benefit from the proliferation of AI and data center demand, driving sustained outgrowth. In Performance Materials, we expect marked operational improvements and top line growth led by the defense, energy, and space end markets.

We remain focused on delivering value for our customers, and shareholders through innovation, operational excellence, and strategic investments. I want to thank our global team for their dedication, hard work and unwavering focus on execution. Their commitment to innovation, quality, and customer service is the foundation of our company. I also want to thank our customers and shareholders for their continued trust and support.

With that, I will turn the call over to Shelly to review the financial details.

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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 13. In the fourth quarter, value-added sales, which exclude the impact of pass-through precious metal costs were \$253.9 million, up 7% organically from the prior year excluding Precision Clad Strip. All in, value-added sales were down 14%. This decrease is largely attributed to the quality event we experienced during the quarter that limited sales to our largest customer. Electronic Materials experienced 20% growth led by strength in semiconductor, and Precision Optics was up 26% driven by overall market improvement and new business wins.

When looking at earnings per share, we delivered quarterly adjusted earnings of \$1.53, up 9% sequentially. Moving to Slide 14, adjusted EBITDA was \$57 million or 22.5% of value-added sales in the quarter, down 7% year-over-year but up 170 basis points from a margin perspective. The decrease was attributable to the Clad Strip volume decline, partially offset by higher volume, strong price/mix and improved performance in Electronic Materials and Precision Optics.

Moving to Slide 15, let me review fourth quarter performance by business segment. Starting with Performance Materials, value-added sales of \$132.4 million in the quarter, down 32% year-over-year.

This decrease was driven primarily by lower Precision Clad Strip sales, partially offset by strength in energy, and telecom and data center. Adjusted EBITDA was \$35.8 million or 27% of value-added sales, down 33% compared to the prior year. This decrease was driven by the lower Clad Strip volume, partially offset by strong price/mix.

Looking out to 2026, we expect to see strong top line growth led by space, defense, and energy initiatives. We also expect improved operational performance as we continue to execute on a number of initiatives aimed at increasing uptime and yields across our facilities. Next, turning to Electronic Materials on Slide 16. Value-added sales were \$94.1 million, up 20% from the prior year and up 18% sequentially.

EM delivered 8% organic growth for the year with sales increasing sequentially each quarter, driven by the strengthening semiconductor market. The top line growth, strong mix, and an improved cost structure delivered \$22 million in adjusted EBITDA or 23.4% with nearly 500 basis points improvement year-over-year.

Looking ahead to 2026, we anticipate another year of strong top line growth fueled by the semiconductor market strength and contributions from new business initiatives alongside continued strong margin performance.

Turning to the Precision Optics segment on Slide 17, value-added sales were \$27.4 million, up 26% compared to the prior year. This year-over-year increase was driven

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largely by new business wins and growth across several end markets, marking the strongest quarter since Q4 of 2022, and the third consecutive quarter of top line growth.

EBITDA excluding special items was \$4.3 million or 15.7% of value-added sales in the quarter, with significant year-over-year margin expansion. The increase was driven by higher volume, favorable price/mix, improved performance and the impact of structural cost adjustments. This marks the fourth consecutive quarter of improved bottom line results and the second straight quarter of double-digit margin performance. Looking out to 2026, we expect both the top and bottom line to continue to grow as new business initiatives advance and the transformation continues to unfold.

Now let me recap the full-year results on Slide 18. Value-added sales were approximately \$1.05 billion, up 4% organically, excluding Precision Clad Strip, driven by strength in semiconductor, energy, and telecom and data center. All-in value-added sales saw a 4% decrease organically from prior year, as a result of the lower Precision Clad Strip volume. While this was a meaningful year-on-year headwind. Many parts of the business saw strong growth, with Electronic Materials up 8% organically, and Precision Optics up 7% for the year.

Despite the slight decline in VA sales, we delivered our fifth consecutive year of higher adjusted EBITDA margins at 20.7% of value-added sales, which was up 50 basis points from 2025. We are very pleased to have delivered our second straight year of 20 plus percent adjusted margins for the full year. And we are making good progress towards our new 23% midterm objective.

Adjusted EBITDA was \$217 million, down 2% from the prior year driven by the lower Precision Clad Strip volume, partially offset by higher volume across the rest of the company, favorable price/mix, and strong operational performance in Electronic Materials and Precision Optics. Adjusted earnings per share was \$5.44 for the year, up 2% as compared to the prior year. Lower interest expense and the benefit of tax initiatives contributed to the uptick.

Moving now to cash, debt, and liquidity on Slide 19. We ended the quarter with a net debt position of approximately \$445 million and \$224 million of available capacity on the company's existing credit facility with leverage slightly below the midpoint of our target range at 2.1x. The Clad Strip quality event impacted our cash flow performance in the quarter, as inventory and cash receipts related to this business came to a temporary halt.

Lastly, let me transition to Slide 20 and address the full year outlook for the company. As we move into 2026, we expect to continue the momentum we built in 2025 to deliver strong organic top line growth and higher earnings, while continuing to make progress towards our midterm EBITDA margin target of 23%.

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We also expect a marked improvement in free cash flow performance with higher cash earnings, improved working capital and thoughtful capital investments. The first quarter will be a slower start to the year with normal seasonality and the ramping of Clad Strip production that comes along with some additional costs we are incurring to ensure a smooth and efficient restart. For the year, we expect to deliver earnings in the range of \$6 to \$6.50 adjusted earnings per share, an increase of 15% from prior year at the midpoint. 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 Mike Harrison from Seaport Research. Mike, your line is live.

Q: Hi. Good morning. Congrats on a nice finish to the year and sounds like some nice momentum into next year.

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Good morning, Mike.

Q: I wanted to start with a couple of questions just on the Precision Clad Strip situation. I guess, first, any additional detail you can provide on the quality issues that occurred and I guess, some of the actions that were required to address that and what that means for the business going forward. And then second, can you talk about, that key customer PMI and maybe what you have heard from them about their expectations for FDA or other approvals for their device and what that could mean for growth expectations in PCS for next year?

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Yes, Mike, let me start with the first one, which is the quality event. Give a little bit more color on it. In our production process, in one of the steps, we had a control failure. We were not able to detect the control failure through our quality system that we have. So the nonconformity that was produced as a result of that reached the customer. The customer actually discovered it in their manufacturing process. And in working of course, closely with the customer, that is where we halted the production. We went through and we thoroughly looked at the situation, investigated, determined the root cause, we implemented fixes for the root cause.

But more importantly, we implemented a very much robust, revised quality system across the entire plant that I think makes us a much stronger company and a much stronger supplier to our customer. And that is important. We want to make sure that we are producing good product for them and supplying good product for them.

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So we feel good with where we are at now. We certainly did not have the necessary means in the system to be able to catch the nonconformity that happened earlier. So we are actively working with them, ramping production here in the first quarter. The customers actually visited our facility. They have looked through the changes that we have made.

We have got the right, I would say, quality leadership and quality resources at the facility. And in general, additional resources to make sure that the changes that we have made are being worked and doing the right things for producing good quality product for our customer. So that is the issue that occurred. We feel good about, I think the changes we made and I would say where the product is going. We are fully prepared to support them, as they go through, their 2026 volumes. We expect our 2026 volumes to be better than 2025. Of course, we are going to go through a ramp here in Q1.

But then higher production in Q2 and beyond to ensure that we can support them in the right way. As for the other items that you mentioned, like, for example, the FDA approval, I mean, they are working through it. We don't have any other new information that we can communicate with you. I am sure if whenever it is that they reach that, they will share that with us. And then we will see what the impact may be to our delivery that they want.

So I think this is certainly a situation that occurred in Q4 that we dealt with, but I feel good with where we are coming out and I feel good with the quality systems that we have placed and making us a stronger supplier to this customer.

Q: All right. Very helpful. And then my second question is on the Electronic Materials business. Obviously, very nice to see some recovery happening in value-added sales. I was a little bit surprised to see that sequentially, value-added sales were up about \$15 million, but it does not really seem like sequentially that contributed to much EBITDA growth. So I am just curious, why didn't we see better leverage on the strong sequential top line growth in Electronic Materials? And maybe if you could take it a step further and talk a little bit about how we should think about margin performance in Electronic Materials in a growth environment in 2026?

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Yes, so first of all, let me just talk about the top line growth. I mean, we are very excited with where things are at. We have talked about our product portfolio. So let me just talk a little bit about that. We have a very good diverse portfolio that cuts across pretty much all parts of semiconductor. Whether it is logic, memory, power, communications, data storage. I think we are seeing the power of that. We are seeing the fact that our sales growth that you mentioned sequentially, highest in nearly three years, it is really cutting across all those areas.

So as the proliferation of AI is happening, high performance computing is coming in place, data storage is increasing, high performance memory is increasing. I think it is

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giving us a good backdrop to be able to say that not only do we have a good Q4 increase, sequential increase that you are mentioning, which is nearly the best quarter in the last three years, but it also speaks to the incoming order rate that we have which is up, sizable on a year-over-year basis and kind of I would say, how we feel about 2026. We expect that 2026 will continue to improve and we are looking forward to be able to capitalize on that improvement.

So I think from a top line perspective, we are feeling very good. I think from a margin perspective, we have to keep in mind that this business, along with our other businesses, there are significant mix factors that go into play from a quarter-to-quarter standpoint, right? So we look at a margin profile from a more on a larger sort of sample size, you could say, sort of longer time frame. So more like a two, three, four quarters on a full year basis, up 300 basis points on a year-over-year basis. We had some onetime items in Q3. We have some mix issues in Q4.

So when you put that together, we don't have the same level of, let's say, percent performance in Q4, but we feel really good about the overall improvement that this business has made through the cost actions, the operational efficiency actions, and we expect those to carry through into '26 as well. So I think, with where I see EM in total, I feel good about how we finished the year, and I feel good about, I think, where this business is going to go in terms of the top line, in terms of the bottom line. Continued progress, I think, from where we were in 2025.

Q: All right. Thank you for that. My last question is just on kind of where we stand on beryllium capacity. I know you called out the \$65 million investment from a defense prime. Sounds like that additional capacity is going to be coming on end of '27. But there is a lot of talk out there about building up strategic mineral reserves in the United States. I am curious, do you expect beryllium to be among the minerals that the government would want to add to that reserve and what does that mean for potential further investments that might be needed in capacity? What does that mean for supply and demand of beryllium and maybe some of the products that you have within the Performance Materials segment.

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Yes. So let me, number of different topics. Right, on beryllium there. Let me just first start with the strategic reserve part of it, and just say that I am not able to talk about that in any level of detail. We work very actively with the government in a number of different areas. And we have been doing that for, obviously, a number of years. And there is a longstanding relationship that we have in ways that the government wants and we work that with them appropriately.

So with that said, let's talk about the beryllium capacity. We have a good level of beryllium capacity. We are able to support our customers need today. What we are really excited about I think is the additional investment that we have received from this defense prime. It will be over this year and next year \$65 million. It's fully funded,

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so 100% of the funding is going to be from this investment that we're going to get from the customer. This will give us additional capacity starting in the '28 timeframe.

In the meantime, we have the capacity that is needed to be able to support the volumes for '26 and '27. It will give us more, I would say, sustained long-term capacity increase, and we're very excited about that. This is something that we've been working with the customer on for the last six months or so, and we were able to finish the discussions, and now, the project is in execution mode.

Q: All right. Thank you very much.

Operator

Thank you. The next question will be from Phil Gibbs from KeyBanc. Phil, your line is live.

Q: Hey, good morning.

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

Good morning, Phil.

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Good morning, Phil.

Q: Jugal, just confirming that you said the \$65 million of customer funding will be received over the course of 2026 and 2027. And then also curious within that, is some of the increased mining CapEx that you have for this year with the intentions, in mind of supporting what you're going to be seeing in the next few years?

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Yes. So you're absolutely right, Phil. The investment is going to be over '26 and '27 timeframe. We'll receive the proceeds over that time as we're working the project. It impacts two of our facilities that are involved in the overall beryllium value stream. So, like I mentioned, we're quite excited about that, and we're in execution mode on that project.

In terms of the mining CapEx, I would say it's just a normal part of what we're seeing, right? We indicated that, we've had 10% plus CAGR of the business over the last five, six years. We've crossed in the defense side over \$100 million. For the second consecutive year, we've got new defense orders, \$140 million. We've got a long pipeline.

Now, of course, beryllium is not only used in defense, but it's a good part of our business. And so as we move forward, we would expect that we are using more

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beryllium to be able to support some of the growth, not only in defense, but we've talked about energy, right? Energy is a big part, and we're looking at beryllium applications in energy. We're looking at applications in other parts of our markets as well. So that is definitely a, I would say, general business growth is a contributing factor to our mining CapEx.

Q: Thank you, and just wanted also just some clarification, if you could, on the first quarter in terms of what you're anticipating from an earnings perspective, maybe relative to last year. And then just a second part in terms of the modeling for the year. I wanted to confirm, you said you expected the sort of the China semi sales to be relatively stable? Thanks.

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

Yes, I'll take that one. Hi, Phil. So, the first quarter, as I mentioned in my remarks, we'll start off a little slow. That typically happens for us. Part of that is some normal seasonality. Defense and semi tend to be softer in Q1. We're also going to have the additional costs around the ramp.

So as Jugal talked about, all of the resources and changes that we've put in place, we are being extra careful during this ramp period and are going to bear some additional costs to make sure that this is a flawless execution. So you're going to see a little bit of a lower Q1. Still a step up from last year, probably roughly 10% higher than last year, is what we're thinking right now. And then we'll have sequential step-ups in earnings all year.

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Yes, let me talk about China and semiconductor. I think, so we've highlighted this over the last year or so, in particular, that we saw a decrease in our sales in China, just based on all the geopolitical issues, tariff issues, et cetera. We don't anticipate, and we're not assuming a further decrease from '25 to '26 in our China business.

At the same time, we've highlighted that we are very much focused on making sure we're growing our business globally. China's one component, and we don't want to let that be a determining factor for where our growth rates are. And so I'm very excited about where the semiconductor business is, the growth rates that we're seeing.

I indicated, I think, in our remarks that excluding China, our order rates for semiconductor are up 14% on a year-over-year basis, so '24 to '25. And, we continue to see good order rates, and we anticipate good order rates, as we go forward. With our new business activities, we've talked about, for example, atomic layer deposition or ALD products, and at the same time, with existing business that is seeing a really good growth in areas like data storage and high performance computing, high

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performance memory, all being driven by -- many of the things that are going on through AI.

So certainly China is an important market for us, and we're very much focused on it, but we are not letting that market sort of drive what we think our growth rates are going to be. We are really, really focused on making sure we're driving global growth across all of our businesses.

Q: Thanks so much.

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Thanks, Phil.

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

Thanks.

Operator

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

Q: Hi, this is Will [ph] in for Dan.

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Hi, Will.

Q: In industrial, are you seeing any green shoots or signs of recovery entering 2026, or is it more of the same?

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Yes, so in industrial, we have a couple of things that we typically talk about. One is we have a beryllium nickel spring business, which is something that has seen recovery. It was at a low point in the '24 timeframe, saw good recovery in '25, and we expect to see continued recovery going into '26. So that part of the business, we expect it to be good. I would say the rest of industrial is, at this stage, our expectation is about GDP type of a growth. Nothing too exciting, but I think our overall industrial business, I expect it to move forward, particularly based on our beryllium nickel spring business.

Q: Thank you. That's helpful. And, you've given a lot of great color on the momentum in defense. Can you talk about energy and space and the momentum in each of those end markets as we head into 2026?

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Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Yes, I mean, energy has been an exciting market for us, especially over the last year or so. We've been a strong player in what I'll call more the traditional energy, oil and gas area, but we've really focused a lot over the last two, three years on developing partnerships outside of that area into more of the new energy space. You're all aware of the partnership that we announced with Kairos on new energy solutions. Last year, we announced a partnership with Commonwealth Fusion Systems, again, on new energy solutions. I think this area is quite exciting for us.

We all know from a market standpoint that the demand for energy is increasing almost sort of at an exponential rate, and we want to make sure that we're working with all the leading players and providing materials for them and enabling them so that they can participate in that. Our new energy business, the order rate was up 50% or over 50%. Our new energy business, I should say, doubled -- more than doubled on a year-over-year basis. So we're very excited about where I think overall energy market can go for us in the next three to five years.

On space, we've had very good success on a number of different programs. On the space side, we have one large customer, but we have been working very diligently on gaining other customers. Certainly, those customers are smaller customers. We've also been working very diligently on making sure that more of our products are being sold at the large customer, but also at the more emerging customers. So we are expecting to see continued improvement in our space market over the next three to five years as well.

Q: Thank you.

Operator

Thank you. [Operator Instructions]. The next question will be from David Silver from Freedom Capital. David, your line is live.

Q: Okay. Hi, good morning. Thank you.

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Good morning, David.

Q: Yes. So, I admit I have a bit of a scatter of questions, but the first question would generally be just checking on potential bottlenecks that might prevent you from achieving your targeted growth in 2026. So for instance, in Electronic Materials, you have made recent investments in both Newton and Milwaukee. And if growth was to continue at the recent trend rate 20% or so, I mean, are you comfortable with the idea that you won't be running into bottlenecks during 2026 from -- is the capacity you have in place, the spare capacity sufficient to handle expected demand?

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And then just along with those lines, you did purchase the facility in Korea about middle of last year. So has that unit been completed? And is that, currently contributing or will that be a contributing asset in 2026? I'll kind of stop there for now. Thank you. But just kind of how do you feel about your spare capacity or your ability to meet based on your order book, what looks to be a meaningful surge in new orders or demand?

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Yes. David, I would say in general, I think we're well positioned to be able to support our customers' needs in all of our facilities for Electronic Materials. We are seeing good order rates across a number of different areas, and the investments that we have made, the operational improvements that we've made over the last few years, I think position us well to be able to support their needs. We are continuing to, of course, look at other ways that we can increase our capacity.

One of the ones that you just mentioned is an acquisition that we made in the middle of last year, where we acquired a facility in Korea. We are in the process of getting that qualified. We expect the qualification of that to be back half of this year, and I would say really any meaningful sales would be into next year. But maybe some sample and qualification sales can be at the end of this year.

But I expect that we're going to be able to support our customers at the levels that they're looking for.

Q: Okay, great. And I apologize if I missed this, but just a clarification. I think one of Mike's questions earlier regarded the status of the next stage of precision clad strip capacity for your key customer there. Did you discuss a timeline or your latest thoughts about when that customer might be requiring production from that new precision clad strip capacity?

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Yes, we didn't specifically discuss a timeline along that, but what I can tell you is that we're very much focused on making sure that we are ramping up production in our facilities this quarter. Getting the facilities back up in a way that is producing good quality product and delivering to our customers. And we are positioned to support them on a year-over-year volume improvement, which we will do. And certainly, if they have more need due to U.S. approval or other needs, we are prepared to support them in that way as well.

Q: Okay. And unusual topic for me, but I did want to ask about your working capital needs. So, if I have this right, I mean, 2025 was the fifth consecutive year where -- if you look at the cash flow statement, where the change in assets and liabilities was a net use of capital, and fairly significant one in most years. I was just wondering, I

mean, certainly you're in a growth mode, so some of that is self-explanatory. But is there anything unusual along those lines that we should think about?

In other words, is working capital growing in line with kind of the growth in your business? is it -- is there a buildup due to -- you have some certain parts of your business are especially working capital intensive, or maybe in the back half of 2025, have you purposely been building working capital to meet what you anticipate to be kind of stronger demand in 2026?

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

Yes. So let me start on that one. So you are correct. With the growth trajectory that we've been in and the new pieces of business that we've taken on. There have been step-ups, especially in inventory. When we bring on an acquisition like the HCS Electronic Materials, when we ramped the business for clad strip, those took pretty, big step-ups with the inventory. Certainly, we look to manage that efficiently and get the turns in line, but it does create an increase. It's sort of a one-time step-up.

When I think about other new business pieces that we've brought on, the beryllium business, as you know, is vertically integrated. So when beryllium grows, that inventory cycle is pretty long, so that does require a bit more inventory. But we do identify this as an area of opportunity. Number one, there was an issue, the quality issue did impact working capital at the end of the year.

As I mentioned in my comments, the inventory didn't move, the receipts didn't come in, so that was really a temporary pause that caused us to be high at the end of the year. And even from that, we've got a number of working capital initiatives to manage inventory specifically, but also AR and AP, to keep looking to bring that number down as a percent of sales and both, and in days, to keep it more efficient and generate cash.

Q: Okay. And then, thank you for that. And I, yes, I should have accounted for the fourth quarter issues in precision clad strip. Just one more question, and this has to do with metals or your, your procurement needs or maybe some contract terms. But whether it's precious metals or other critical materials, I mean, the pricing and in certain cases, availability issues have been topics across the industries that you serve. I'm just wondering. This is purely speculative. I don't know, but are any of your contracts contingent on metals prices not topping a certain amount?

In other words, is any of your business at risk because of where copper or gold or silver or other critical materials that you require are currently priced. I mean availability I guess is separate issue, but is there any kind of risk or uncertainty to your order book based on the procurement prices of the critical materials that your customers' products utilize?

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

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Yes, I would say in general, the answer is no. We don't have those types of contracts with our customer. I think we have a very good transparency with our customers on what our materials prices are and how we handle that with them. Certainly, if there's materials that a customer is using, and those materials are now much more costly than perhaps other materials that may be available out there, the customer can consider substitution. But that substitution requires a requalification developing a solution that actually works for them, and then requalification, which in most cases is unlikely because these things can be temporary in nature.

So I would say in general, that's really not a topic for us that that we look at.

Q: Okay, great. I appreciate all the color. Thanks very much.

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

Thanks David.

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Thanks, David.

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 - Chief Financial Officer and VP of Finance, Materion Corporation

Good morning.

Q: Good morning, Dave. Thanks. Just wanted to ask a quick one on the energy end market. I was hoping to clarify the new contribution from the CFS shipment. It was mentioned in the slides that that's an initial shipment. Just trying to think about, is that a nonrecurring shipment, or is this kind of the new normal for energy given the startup of that contract?

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Yes. We announced last year that we had signed an agreement with them, and then as part of that agreement, we had received an initial contract that goes over a couple of years. And as part of that, we made the first shipment into Q4, and we'll

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continue to do that this year. And what happens, I would say, really beyond that, we'll continue to work with them on what their needs are and support appropriately.

Q: Understood. Very helpful. Thank you. And then also just thinking about your order book and backlog. With the new \$65 million defense contract having about a two-year burn rate, this is maybe just a little bit longer than your traditional burn rate that you've mentioned in your 10-Qs of about 18 months. Are you seeing that be maybe the new normal for your backlog burn rate, or is this maybe more of a one-time thing?

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Yes, let me just talk first about the \$65 million investment. That is actually an investment into increasing our capacity for being able to produce beryllium and beryllium-related products. So that's a capital project, and that will be done over this year and next year. So approximately about a 24-month time frame is when we will get that implemented and put that in place.

And what we have indicated is that that'll give us more capacity to produce product, and certainly whatever, then we're able to supply to our customers in the out years with that, that'll happen. The orders and the new orders that we're talking about, which is \$140 million of orders that we've talked about, that we booked, the \$35 million that we booked already this year. Those can be within the quarter delivery, they can be within the year delivery. In some cases, they actually go a little bit into the following year maybe over a six quarter time frame or something. So that is a, I'm sure the 18 months or something that you may be referring to is that, those that come in.

If we get new orders because of the increased capacity in beryllium those will be negotiated over, let's say, the rest of this year. And because those will go into effect then in the '28 and sort of year '28 and beyond time frame.

Q: Understood. Thank you for that clarification, and good luck in 2026.

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

Thank you. Thanks, David.

Operator

Thank you. There were no other questions at this time. I would now like to hand the call back to Kyle Kelleher for closing remarks.

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

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Thank you. This concludes our fourth 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 have you available for any follow-up questions. The number is 216-383-4931. Thank you again.

Operator

Thank you. This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.

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