

Transcript of
Materion Corporation
Materion First Quarter 2026 Earnings Conference Call
April 29, 2026

Participants

Kyle Kelleher - Director of Investor Relations & Corporate FP&A, Materion Corporation
Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation
Shelly Chadwick - Chief Financial Officer and VP of Finance, Materion Corporation

Analysts

Daniel Moore - CJS Securities
Mike Harrison - Seaport Research Partners
Samuel McKinney - KeyBanc Capital Markets
David Silver - Freedom Capital Markets
Dave Storms - Stonegate Securities

Presentation

Operator

Greetings. Welcome to the Materion First Quarter 2026 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, 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 first quarter 2026 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'll reference as part of today's review of the quarterly results. You could also access the materials through the download feature on the earnings call webcast link.

With me today is Jugal Vijayvargiya, President and Chief Executive Officer, and Shelly Chadwick, Vice President and Chief Financial Officer. Our format for today's conference call is as follows: Jugal will provide opening comments on the quarter. Following Jugal, Shelly will review the detailed financial results in addition to discussing expectations for the remainder of 2026. We will then open up the call for questions.

Transcript Provided by



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 on 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, non-cash charges, and certain discrete income tax adjustments. And now I'll turn over the call to Jugal for his comments.

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Thanks, Kyle, good morning, everyone. I'm pleased to be with you today to discuss our first quarter performance and share what we're seeing for the remainder of the year. VA sales were up 10% year-over-year, excluding precision clad strip, reflecting strong demand across most of our end markets.

Electronic Materials sales increased 18% versus last year, driven by AI-led demand for high-performance memory and data storage applications, along with strengthening demand in power applications and communication devices. Precision Optics delivered 43% year-over-year top line increase, with new business coming online across multiple end markets and applications. While Performance Materials sales were roughly flat, excluding precision clad, this was primarily due to shipment timing. The order book continues to build, driven by strong demand in aerospace and defense, energy, and telecom and data center.

We expect a meaningful step-up in sales in Q2 and throughout the rest of the year. As for precision clad strip, the production ramp-up is progressing well and remains on schedule. We are now producing at the same rate as before the quality issue. We also delivered strong earnings in Q1, with EBITDA margins exceeding 20%, a record for our first quarter given our typical seasonality.

Electronic Materials continues to be an outstanding performer, achieving record profitability on very strong sales. Precision Optics continued to exceed expectations, delivering its fifth consecutive quarter of profitability improvement through strong execution on its expanding top line.

Turning to our end markets, it's encouraging to see most markets in the high single-digit to low double-digit growth range. Even more importantly, our order book continues to strengthen. We exited the first quarter with the highest backlog in our company's history.

Transcript Provided by



Order backlog is up more than 20% year-over-year and 15% since the start of the year. Defense orders remain strong, with \$60 million received in the first quarter, and we have more than \$300 million in open RFQs. Over the last 12 months, aerospace and defense order rates are up 50%, energy is up 20%, and semiconductor is up 10%. We are seeing clear acceleration across many of our end markets, and our teams are prepared to meet these higher levels of demand. Going a layer deeper, I want to step back and frame a broader trend that is having a significant impact on Materion, the rapid proliferation of AI. When people think about our role in AI, they often focus on our semiconductor deposition materials, and with good reason.

We are a leading supplier of Advanced Electronic Materials that enable advanced node chips and data storage devices. We're in the midst of an AI-driven semiconductor growth cycle, and that strength is evident in our Electronic Materials performance. But our impact on AI extends far beyond the chip itself. Materion has become a critical enabler of the AI ecosystem, not at the edges, but at the core. AI acceleration depends on advances in semiconductor performance, high-speed connectivity, next-generation optics, and high reliability energy and space systems.

Each of our three businesses provides foundational materials for these applications. Our Performance Materials business plays a strategic role across the infrastructure powering AI. From advanced data centers to global connectivity networks and next-generation energy systems, our engineered alloys and beryllium-based materials enable performance, reliability, and safety at scale.

We supply beryllium nickel materials for fire protection systems in data center build-outs and specialty alloys for connector technologies and high-speed semiconductor fab equipment. Our materials support the wireless backbone that carries AI-driven data, including towers, undersea cables, and base stations. In energy, our beryllium alloys enable breakthrough nuclear reactor technologies needed to deliver the continuous power AI will require and are widely used in oil and gas drilling and processing equipment.

In space, our materials are integral to propulsion systems, spacecraft structures, and launch components supporting global connectivity and observation networks. Our Precision Optics business provides advanced optical coatings and engineered components essential for data center expansion, immersive AR/VR technologies, and advanced semiconductor manufacturing.

Our solutions support connectivity and semiconductor equipment applications, and we supply optical filters and systems for satellite technologies that enhance communication and earth observation capabilities. As semiconductor devices become smaller and more complex, advanced optics have become increasingly important for lithography, inspection, and metrology, improving accuracy, boosting yield, and enabling scaling for next-generation chips.

Our Electronic Materials business sits at the center of semiconductor innovation, supplying the advanced deposition materials and engineered targets required to

Transcript Provided by



manufacture chips at the most sophisticated nodes. These materials power both high-performance computing and data storage devices used in data centers, as well as the semiconductor components that enable global connectivity.

Beyond deposition, we provide a range of high-value niche materials supporting AI, including alloys for next-generation nuclear reactor technologies, specialty metals for base space station applications, and chemicals used in satellite heat shield tiles.

While smaller in scale, these applications highlight the depth of our capabilities and our ability to solve complex materials challenges in high-reliability environments. As AI workloads scale, demand for the engineered materials we produce is rising rapidly, and we are already seeing that momentum reflected in customer demand, order rates, and new business wins.

Looking ahead to the remainder of 2026, we are energized by the growth our businesses are experiencing and the opportunities emerging across our markets. We're seeing momentum build across the company in our end markets, our incoming order rates, and the new business opportunities our teams are securing. Our results reflect their hard work and commitment. We now see a path to delivering low double-digit top-line growth for the year while continuing to seed opportunities for the future.

This gives us even greater confidence in delivering results toward the high end of our earnings guidance provided in February. I want to express my gratitude to our global teams for their dedication and unwavering commitment to excellence. Their work, driving innovation, ensuring quality and supporting our customers is the foundation of Materion's success. And finally, I'd like to thank our customers and shareholders for their continued trust and partnership.

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

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 11. In the first quarter, value-added sales, which exclude the impact of pass-through precious metal costs, were \$261.8 million, up 10% from the prior year when excluding precision clad strip. All in, value-added sales were up 1%, reflecting broad-based demand across our portfolio.

Growth was led by semiconductor and aerospace and defense, consistent with the momentum Jugal outlined. Electronic Materials delivered another very strong quarter with 18% growth, supported by continued strength in semiconductor applications and new business wins. Precision Optics grew 43%, driven by new programs across multiple end markets and marking its highest quarterly sales since 2021. Adjusted earnings per share were \$1.27, up 12% from the prior year.

Transcript Provided by



Turning to Slide 12, adjusted EBITDA was \$52.9 million or 20.2% of value-added sales, a record first quarter margin for Materion and an increase of 9% year-over-year. We delivered 140 basis points of margin expansion driven by higher volume, favorable price mix, and strong operational performance, particularly within Electronic Materials and Precision Optics.

Moving to Slide 13, let me review first quarter performance by business segment. Starting with Performance Materials, value-added sales were \$139.5 million in the quarter, down 13% year-over-year, but up 5% sequentially. This year-over-year decline was driven by lower precision clad strip sales as production levels ramped through the quarter. Outside of clad, we saw strength in aerospace and defense and telecom and data center, partially offset by timing in energy orders.

Adjusted EBITDA was \$28 million or 20.1% of value-added sales, down 32% compared to the prior year period. This decrease was driven by the lower Clad Strip volumes and the impact of operational challenges in the back half of 2025 that amortized into this year. Looking ahead, we expect meaningful sequential improvement in the top and bottom line, driven by stronger aerospace and defense sales and higher PMI shipments, with momentum building into the second half. As Jugal highlighted, the order backlog continues to expand and we are well-positioned to support higher demand levels throughout 2026.

Turning to Slide 14, Electronic Materials delivered another exceptional quarter. Value-added sales were \$91.6 million, up 18% year-over-year, driven by semiconductor strength as our materials continue to enable advanced node technologies and AI-related applications.

Adjusted EBITDA reached a record \$25.9 million, up 95% year-over-year with more than 1,000 basis points of margin expansion and a record adjusted EBITDA margin of 28.3%. The meaningful improvement reflects higher volume, favorable price mix, and strong execution across the segment. For the remainder of 2026, we expect to see continued growth supported by semiconductor market outgrowth and contributions from new business wins.

On Slide 15, Precision Optics value-added sales were \$30.7 million, up 43% year-over-year, driven by new business wins and growth across every end market. This marks the segment's strongest quarter since 2021 and its fourth consecutive quarter of top-line growth. Adjusted EBITDA was \$5.5 million or 17.9% of VA sales with significant year-over-year margin expansion. This reflects higher volume, favorable mix, and continued execution on the business transformation. The segment has now delivered five consecutive quarters of bottom-line improvement. We expect both top and bottom line growth to continue in 2026 as new business ramps in key high growth markets and the transformation progresses.

Now moving to cash, debt, and liquidity on Slide 16. We ended the quarter with a net debt position of approximately \$474 million and \$192 million of available capacity on

Transcript Provided by



our existing credit facility, with leverage slightly below the midpoint of our targeted range at 2.1x. We strategically built inventory in Q1 to support expected sales growth in Q2 and into the second half, which temporarily constrained free cash flow generation. We continue to expect strong free cash flow for the full-year as volume increases and working capital normalizes.

Finally, turning to Slide 17, our record backlog and strong order rate momentum exiting Q1 give us increased confidence in our full-year outlook. We now expect low double-digit top-line growth for 2026 and are affirming our adjusted EPS guidance of \$6 to \$6.50, with growing confidence in delivering towards the upper end of that range.

With the strong start to the year, we also remain committed to making progress toward our midterm EBITDA margin target of 23%, while generating strong cash flow over the balance of 2026.

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

Operator

Certainly. At this time, we'll be conducting a question-and-answer session. [Operator Instructions]. Your first question is coming from Daniel Moore from CJS Securities. Your line is live.

Q: Thank you. Good morning, Jugal. Good morning, Shelly. Thanks for the color.

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Good morning, Dan.

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

Morning, Dan.

Q: Obviously gave a lot of color, Jugal, but always good to talk, start with semi. Maybe just talk about the sort of the cadence of order rates exiting Q1 and into Q2. And obviously, you talked about many of the different applications. Just a sense of how your customers see the outlook for kind of '27 and beyond, maybe relative to what those expectations would have looked like six or nine months ago?

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Yes, as you know, Dan, I mean, semis was a really good quarter for us here in Q1, up 16% on a year-over-year basis. In fact up, I would say about 40% if you exclude some of the China business, which we know had been going through some changes, and

Transcript Provided by



we've talked about that over the last 12 to 18 months. So a very strong Q1 for us. We expect semi to continue to be a very strong Q2 and then the rest of the year.

Our order rate for semis have been improving sequentially. I would say that our exit out of Q1 was stronger than the exit out of Q4, and we expect that type of trend to continue. I mean, the great thing with semi for us is, we've really do play in all the areas of semi. So whether it's power semiconductor or communications, data storage, logic devices, memory devices. And so I think we're seeing the growth rate across really all of those areas. So it's not concentrated in one or two areas. So we expect it to really be a more broad-based growth in the remaining quarters as well.

When you look at, for example, our high performance memory and our data storage, which is really much more aligned towards the AI applications, our sales were up 47% on a year-over-year basis in Q1, and we expect that to continue as well. And then, of course, from the profitability side, and I know you didn't ask that question, but I'll add it to it. The business has performed with EM, which semi really mainly resides in, has performed very well on our profitability in this business is improving substantially on a year-over-year basis as well.

So we expect, this to continue. We'll see what '27, '28, of course has to bring to your point about maybe what our customers are saying. But I think for the rest of the year, we expect strong order intake and a very good growth curve on a year-over-year basis.

Q: Really helpful. Switching to aerospace and defense, orders up 50% year-over-year. Obviously, you announced the CapEx funded projects for the large prime last quarter. Just how has the war in Iran changed your outlook and growth expectations? And just maybe a little bit of kind of under the hood dialogues with customers, not necessarily for the rest of this year, but looking out into '27 and beyond as well.

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Yes. Well, defense in general was getting a lot of attention, even prior to the conflict that started, right? And there was discussion about higher budget for this year, next year. And I think the war has just strengthened that talk in Washington. And so what I would say we're seeing is, and we've been talking about over the last two, three quarters is the open RFQs, right? We started out saying a couple of quarters ago that we were at \$100 million in open RFQs. We kind of increased that to \$150 million, \$200 million in open RFQs. At this stage, we sit at \$300 million plus open RFQs. These are inquiries that have come in from various primes from different countries on the defense side of our business.

The \$60 million that we booked in Q1 is a record for us. We haven't had a \$60 million Q1 ever. And so the momentum, I would say, has certainly shifted even more. It was there before the conflict, but certainly that has aided the order rate as well as the open RFQs that are on the defense side. So we expect this trend to continue here the

Transcript Provided by



rest of the year and probably the next three to five year window as well. And that certainly plays into our overall aerospace and defense market.

As you know, some of our space activities are certainly related to a defense area as well, and we see the same type of trends that I'm highlighting here in that area as well. So in general, defense is a strong market, and I think will continue to be a very strong market and probably even become a stronger market as we get into the next one to two years.

Q: I'll sneak one more in and jump back in queue. And I know you don't guide quarterly, but just looking at the low double-digit growth, top line growth for the full year, obviously a meaningful inflection from what we saw in Q1. So just how do we think about the cadence of that growth? Are you thinking about kind of double-digit growth starting in Q2, or do you see it maybe a little bit more back-end loaded? Thank you again.

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Well, I think considering the fact that overall our business was about 1% in Q1, certainly up 10% year-over-year, excluding the precision clad. So we're already seeing the 10% or let's call it the double-digit growth. Even in Q1, when you exclude the precision clad. We expect double-digit growth really for each of our quarters. And certainly, it'll be more of a growth in the back half of the year, no question, but we expect strong growth throughout the year.

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

And maybe just to pipe in, Jugal, on that. We think how that translates through to bottom line. I think we'll see probably a 15% to 20% step up from an EPS perspective next quarter. But even much more meaningful step-ups in the back half as that flows through. So looking at really great outlook for the rest of the year.

Q: Super helpful. Thank you.

Operator

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

Q: Hi, good morning.

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

Good morning.

Transcript Provided by



Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Good morning, Mike.

Q: I was hoping you could address a couple of questions on the Performance Materials segment. I guess just in terms of the precision clad strip quality issue, it sounds like there was kind of some amortization of that impact dragging on Q4, and it also impacted Q1. I'm just curious, how should we think about Performance Materials earnings in the second quarter compared to what is obviously some unusual weakness in Q1? And then can you also give some additional color on, is this quality issue fully resolved? What changes had to be made? And I know you said you're ramped back to where you were before the issue came up, but I guess how much additional capacity or capability do you have beyond what you had before this issue came up? Thanks. Sorry for like six questions in one there.

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

No problem. We'll tag team it. Yes, let me start with the quality issue and kind of where things stand, and then Shelly will jump in, I think, on the financials and what we expect in Q2. I would say that our team has made significant progress and really, very, very good progress in working with the customer and resolving the quality issue. We had indicated in the last time that we spoke that we were back up and running. It was really just a matter of ramping here in Q1, which I think the team did and has done a really nice job of ramping. And like I indicated, we are back to running at the rates that we were running prior to the quality issue.

We're producing now at those rates and starting to ship, at those rates to the customer. The team is very excited about the rest of the year in Q2 and Q3, Q4. We expect good growth, I would say, in each of the quarters as we go forward. So there are certainly changes that we made to our manufacturing processes and changes that not only did we make to that manufacturing process, but there are great learnings that, that you take across the entire company. And we're doing that.

We're in the midst of actually doing that across our entire company so that we can continue to improve and be a better company overall. We, as I said have back to the earlier production schedules, and we still have capacity. So if the customer wanted higher volumes, the capacity is there and we certainly can do that, and we're working with the customer on what type of volumes they'd like for the rest of the year. We expect the rest of the year, like I said to be at or better than the production levels that we had prior to the quality issue.

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

Maybe just to hit the profitability side. So it's great to see the production levels back to kind of normal rates, that obviously ramped during the quarter. So big impact on the quarter from an underutilization of the plant perspective. As you know, we're

Transcript Provided by



going a little bit slower, taking a few more steps that are impacting the profitability right now. We'll see a really strong step up on the top line in Q2, and then very normalized, I would say, both top and bottom line in the back half for the clad specifically. When I look at PM overall, which I think was also in your question, we're going to see a meaningful top-line step up next quarter. More than a couple hundred basis points step up from a profitability perspective.

And again, working past some of the operational issues, working past the clad item. In the back half we'll see even better profitability.

Q: All right. Thank you. Very helpful there. Then I had a broader question on Performance Materials. I just was wondering if you can help us understand how we might think about pricing going forward because you've got a portion of the business that's more beryllium-based, and arguably there aren't substitutes for some of those products, and there aren't many alternative sources either. So maybe help us understand what portion of your sales are more toward the beryllium and harder to substitute side of the spectrum versus products that are alloys and maybe could be subject to competition from other metals or could be substituted for other alloys. Does that question make sense?

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Yes, no, it absolutely does, and let me address that a bit because that's probably six questions in one also, like you indicated on the earlier one, but let me address, I think, the some of the points that you've brought up here. I'd say roughly about half of our sales are somehow beryllium or beryllium-based type of materials that we supply, and the other are non-beryllium type. Certainly beryllium type of business is a very good rich mixed business for us. We tend to look at the business in terms of much more of a longer cycle and more harder to change.

Sticky type businesses, I think, tend to be better from a profitability standpoint, obviously from a sales security standpoint, and I think beryllium provides that. I mean, so whether it's the defense side or whether some of the aerospace side or even some of the energy side, I mean, that's what beryllium gives us, is it gives us a longer runway in terms of sales as well as I think it gives us some better mix, some better profitability, like you indicated on that.

We do have to keep in mind, of course, that there's always substitution risk, but it does take a longer period of time, and beryllium's performance, the material performance far exceeds, of course, other materials.

So I think pricing is certainly an important enabler for us in this business. It has been, as you know, Mike, I mean, if you look at the last 5% to 7% to 10% kind of where the profitability was and where the profitability of the business is today, pricing was an important enabler to that. We continue to focus on that. We continue to look at what opportunities we have in pricing. Yes. But in general, I would say, we like, I think the

Transcript Provided by



direction that the business is headed. We like the mix, the general mix of the business, in terms of some of the markets that beryllium is being used in.

It has certainly broadened, I think, the use overall. So I think overall in PM as Shelly indicated, we see a little bit of a downturn here in Q1, and then we kind of explained kind of what those are, but we expect it to be right back to the type of levels that you are used to on PM in a very short order.

Q: All right. Thanks for that. In terms of the defense RFQs and this \$300 million number, are you the incumbent in most of those applications, or a lot of them new technologies? And I guess, these quotes, is this business that could come to you in the next 12 to 24 months, or could it be spread out over a much longer period?

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Yes. So I would say in many cases, of course, we are the incumbent because in many cases, the primes and the government's looking to produce more of things that we already do. But I would say there is a number of things that we're involved in that are new, both in our Optics business and in our Performance Materials business.

There are new activities that we're involved in, both on the state side as well as in some cases outside the U.S. So it's a mix. Of course, when we win a business, typically, as you know, it's a 12 to 24 month type of a window. In some cases, it's maybe even a longer window.

So if we get a multiyear order, three to five year type of order, that certainly could be the play as well. But in most cases, it is in the next 12 to 24 month window is how we look at these businesses. We've been increasing this number. Like I indicated, I think when Dan asked the question, I mean, just within the last two, three quarters, this number has grown to \$300 million. It was starting out around \$100 million. And we've been increasing the dollar amounts that we've been actually booking.

This feeds right into our record backlog that we talked about, the highest backlog that our company's ever had as we exited Q1. So that's how we see the business kind of playing out over the next 12 to 24 months.

Q: All right. This is my last one, I promise. Just on Electronic Materials and the gross margin strength that you're seeing there. Q1 was, almost 1,000 basis points higher than the gross margin rate you had in '22 or '23. I'm curious, how much of that strength would you attribute to mix that maybe is going to fluctuate or normalize over time? And how much of that improvement is more sustainable in nature? Just trying to understand if something north of 40% gross margin is what we should be modeling going forward? Thank you.

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Transcript Provided by



Yes, Shelly, I think can comment on the numbers, but let me just tell you a little bit about, I think the last couple of years and what we've done to the business, Mike. You know, we've talked about it. As you know, the semiconductor market and the Electronic Materials market, in general had a little bit of a downturn over the last couple of years. We took the opportunity to make significant operational improvements and cost improvements in that business, and that's benefited us.

So as the volumes are now coming in, and the volume for Electronic Materials was \$90 million plus, right, for Q1. I mean, the flow-through has been really, really fantastic because of the significant improvements the business has driven over the last couple of years. So I think that's been a key contributor to our margin expansion.

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

Yes, maybe just to add to that, Jugal. I think if you go back a few years, we felt the margins in Electronic Materials were not what they should be, right? And so there was certainly a lot of upward potential when we think about where EM margins could go. And so the work that has been done was really impactful. Now that we see the volume coming in on top of that, we're seeing margins that are much closer to typical, what I would call Electronic Materials margins. Now, was this quarter particularly strong? Yes. And we've talked about the fact that this does bounce around a little bit with mix. The mix absolutely is positive right now. And it will move around a little bit, but I think we expect this trend to continue in terms of delivering stronger margins in EM.

Q: All right, thanks. I'll turn it back.

Operator

Thank you. Your next question is coming from Samuel McKinney from KeyBanc Capital Markets. Your line is live.

Q: Hey, good morning.

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Good morning, Sam.

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

Good morning.

Q: The business transformation and cost initiatives have obviously been the focus in Precision Optics recently, but the first quarter value-added sales was the best quarterly figure for that segment in years. If you could just talk about what's driving

Transcript Provided by



that top line improvement and the associated operating leverage within that business?

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Yes. Sam, as we've highlighted, I think in our remarks, and we've talked about it the last couple of quarters, the team has made really, really great progress in transforming that business in a very short order. When you look at kind of how things finished out in Q1, 43% year-over-year growth on the top line, highest since 2021. Almost 18% of EBITDA margin, you may recall that even when you go back several years and you kind of look at the peak of that business, it was about a 20% EBITDA margin, right?

And so the team has done a nice job of driving the turnaround of that business, and we feel very good with where we're positioned for Q2 and the rest of the year. Top line has been an important enabler of that turnaround. And that's a combination of general market improvement, I would say, but also a significant new business activities that our folks have been involved in markets such as semiconductor, automotive, defense, some of the key markets that business participates in. There's a lot of new business initiatives that they've been involved in.

And the most importantly, is we've been able to close on those new business initiatives and get sales, in fact, in Q1 and then for the rest of the year. So the top line has been recovering as a result of both market and that, and certainly the transformational activities on the operational side, cost side have been important enablers.

Q: Okay, thanks. And then with the Chinese portion lagging the overall semiconductor business, can you give us an update on the progress made and when you expect to start deriving benefits from the Konasol acquisition?

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Yes, that's an important activity for us, as you can imagine, for the rest of this year. And then because it's an item that we're looking for key contributions in the '27, '28 timeframe for our sales. We expect that we should have some level of small scale activity, perhaps at the end of this year. But really, I would say '27, '28 is when we start to have a meaningful impact into the semiconductor business, into the EM business for that. The Chinese component, as we have spoken, certainly is a year-over-year headwind, but the rest of our markets are performing very, very well in that area.

Like I highlighted earlier, the business was up 16% in Q1, 40%, 41% actually for excluding the Chinese activity and strong order intake. Very, very strong order intake, that's happening in that business across all of our areas of semi. And so we expect very solid growth the rest of this year, which is I think one of the reasons why we feel that our business can be low double-digits, type of growth rate, for this year.

Transcript Provided by



Q: All right. Thank you.

Operator

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

Q: Yes. Hi, good morning, and thank you.

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Hi, David. Good morning.

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

Good morning.

Q: Yes, Hi. Thank you. I had a couple questions, I think mostly on Electronic Materials. But I think you sort of touched on some of these before. And let me preface my remarks. I did have to step away for like two minutes, so I apologize in advance if I'm making you repeat yourself. But the growth on the Electronic Materials side, top line and at the EBITDA level very strong. I was wondering if you could maybe characterize it a little bit. So one thing would be whether the bulk of the improvement was tilted maybe towards Milwaukee versus Newton, or was it very broad-based.

And then maybe just to comment, would I be correct in assuming the top-line growth is mostly due to volume and not so much to price? I'll just stop there. But price versus volume component, and then is tantalum participating as much as the sputtering targets and the deposition products?

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Yes. Well, first of all, very impressive growth, like you indicated. Our top line has done very well in that business. When we look at our semiconductor business, we really look at it more from an angle of the type of semiconductor that we end up serving, right? So we end up serving, power semiconductor, which is a very strong part of our business. Memory, so both I'll call it legacy memory, but then also high performance memory is an important part of our business. And then it cuts across communication devices, data storage, logic devices. So it kind of goes across really all of those.

And our factories, you mentioned Milwaukee, we have Newton with the tantalum business, but we also have facilities in Brewster, in Buffalo, and else now in Singapore, Taiwan, et cetera, that support these businesses globally. We are seeing growth rate across all of these businesses, and we're seeing order intake be really

Transcript Provided by



good across all of these businesses. So it's not a single area that we are seeing the growth rate in. The market, I think is coming through on all of these areas.

I want to talk about new business. So one of the areas that one of the reasons that we're seeing the growth is new business initiatives that our teams have driven over the last couple of years that now that the market is recovering, we're starting to see the benefit of that, right? So as you know, in Electronic Materials or in semiconductor type of market, it takes about 24 months, 18 to 24 months to qualify new products at customers. Well, we did that. In many cases, we did that over the last 18 to 24 months when the markets were a little bit challenged. Now that the markets are recovering, we are seeing the benefits of those new business initiatives come through in our sales. So its market recovery is certainly an important part of it.

New business wins and new business initiatives that we've been able to get is certainly an important part of it. And certainly, price is an important part, but it is not the main part, right? So there's a little bit of price in here, I would say, but not really a significant part of the growth story that we have for Electronic Materials or, let's say, the semiconductor business.

Q: Okay, great. Thank you for that. And then if I was to just ask a question on the Performance Materials side, and again, apologies if I'm making you repeat yourself. But in your current guidance, the upper end of a range of \$6 to \$6.50, you have discussed the resumption of normal operations on the one precision clad strip line. I believe there was also a timing or a belief that there might be another line of precision clad strips starting up at some point this year.

Again, apologies if I missed it, but what is the assumption for that, or do we have any clarity on when that large customer might be back, and utilizing that most recent clad strip line?

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Yes. So in our facility, we have a level of capacity that we are using for that customer, and we do have more capacity if that customer comes back with, let's say, higher levels of demand. We are, as I indicated earlier, David, is that we are back to pre-quality issue type of production levels. And so we are producing that, and we are supplying that to the customer. And if there is a demand need, in during this year to go higher, we are prepared and we can go higher. I mean, it really depends on what the customer, what type of orders the customer gives us.

As you know, and we've talked about it, they're also looking at their U.S. application and kind of the approval on the U.S. side. If that happens, that may trigger higher levels of demand. If it does, we'll utilize that capacity to do that. I think in general, I want to stress, though, I think on the PM side, that in Q1, I know our margins and our sales level were a little bit depressed from our historical levels. We expect a step up in Q2 and then, further step-ups in the back half of the year. And these are not solely based on a precision clad strip type of a recovery.

Transcript Provided by



These are broad-based type of recoveries that are happening across defense, across aerospace, across industrial, across energy. All of those areas are contributing, in fact, to that business. Our order rate that we've been getting indicates exactly that. I believe we're really well-positioned to have a meaningful step up in that business in Q2 as well as the rest of the year.

Q: Okay. Thanks for that. I meant to start off with this comment, but I really did appreciate that extra slide you put in, I believe it was Slide 8, where you highlighted kind of some of the key end uses for your products. It's great that it's all kind of laid out in one place like that. I appreciate it. Kyle probably did some work on this and he's going to buy himself some more work as I go through it with him. But anyway.

One other question on your budgeting or your guidance page. And in particular, I wanted to hone in on the CapEx budget, \$75 million, and then there's another \$25 million, I guess, for mine development. But in that \$75 million, there's certainly there's a sustaining component of it. If you could kind of hone in on the growth oriented or discretionary part of that \$75 million in CapEx that you expect to spend this year. Just where are those incremental resources targeted for? Thank you.

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

So as you know, we've had pretty strong capital spending over the last several years because of the organic opportunities that we've had laid out, and you see that coming through in our results, which we're happy about. I would say, we've got projects in each of our businesses that are focused on expanding capacity and capabilities, as well as sort of recapitalizing and making sure that our plants are up to snuff and ready to produce at the levels we need them to produce at.

So I wouldn't say it is, it's all Performance Materials or it's all EM. We've got big meaningful projects in each business, even some in Optics as that business is performing really well. So I wouldn't call it discretionary so much as continuing the support of organic growth and the -- what we expect going forward.

Q: Okay. So not one major project to call out, more broad-based.

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

No. We'll see that...

Q: Okay. Thank you very much.

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

Transcript Provided by



Oh, sorry. I just want to mention, we talked about the \$65 million investment that we're getting from a customer to expand capacity in the beryllium side of the business, and that will be somewhat additive, not all spent in one year, but you'll see that come through as sort of customer funding and additional CapEx, and that's obviously all on the PM side.

Q: Very good. Okay, thank you very much. I appreciate all the color.

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

No problem.

Operator

Thank you. Your next question is coming from Dave Storms from Stonegate. Your line is live.

Q: Good morning, and thank you for taking my questions.

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

Good morning, Dave.

Q: Good morning. Just wanted to maybe circle back to some of the EM new business wins. I know it was mentioned in the prepared remarks. And it sounds like a lot of that 12 to 24 months is kind of starting to come to fruition. Maybe if you just go a little deeper into what's working and maybe what that sales cycle looks like now and maybe how the top of the funnel has changed. I got to imagine you're probably seeing more inbounds than you were this time a year 18 months ago.

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

Yes. Are we getting more requests, and opportunities from a new business perspectives, particularly with EM, right, Dave?

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Yes. Okay, I got it. As I indicated in the earlier comments, we've been working with the customers over the last couple of years on a number of different initiatives, and those initiatives have been coming through, and that's been contributing to some of the sales increases that we're seeing right now. But that's not slowing down. That's not slowing down. That's not stopping. We are working with our customers on other new business initiatives across the whole semiconductor space, across the entire EM space. And we'll continue to do that.

Transcript Provided by



Typical validation or let's say a verification qualification cycle lasts maybe somewhere in the 12 to 24 months is probably more reasonable. Some where you have just a small modification or something like that could be 12 months, but longer when you have a new product, it's maybe more of a 24-month type of a cycle. And we continue to have that. Our funnel is strong and I think it will continue to contribute towards the growth that we are expecting over the next year.

Q: Understood. Appreciate that. And just maybe a follow-up on that. With those new customers, I mean, are you seeing them be more trial customers, where they're maybe only tasking you with a smaller portion of their projects, and there's room to expand, or do you see them being full scale out the gate?

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Both. In some cases, we're seeing a scenario where maybe we're entering in as perhaps like, let's say, a second supplier or a third supplier with a smaller share. In other cases, they're brand new projects. They're brand new projects, in which case we are working with them on the majority of the volume or perhaps even all of the volume. So it cuts across, I think, with the number of different opportunities that we have.

Q: Understood. Thank you for taking my questions.

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

Thank you.

Jugal Vijayvargiya - President & Chief Executive Officer, Materion Corporation

Okay. Thank you.

Operator

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

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

Thank you. This concludes our first quarter 2026 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

Transcript Provided by



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

Transcript Provided by

