Transcript of
Materion Corporation
Materion Second Quarter 2026 Earnings Conference Call
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Participants

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Presentation

Operator

Greetings. Welcome to the Materion Second Quarter 2026 Earnings Conference Call. At this time, all participants are in 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, Investor Relations and Corporate FP&A, Materion Corporation

Good morning. And thank you for joining us on our second 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 will reference as part of today's review of the quarterly results. You can also access the materials through the download feature on the earnings call webcast link.

With me today is Jugal Vijayvargiya, President and Chief Executive Officer; and Shelly Chadwick, Vice President and Chief Financial Officer.

Our format for today's conference call is as follows: Jugal will provide opening comments on the quarter. Following Jugal, Shelly will review the detailed financial results in 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 four through nine in this morning's press release. The adjustments are made in the prior year period for comparative purposes and remove special items, non-cash charges, and certain discrete income tax adjustments.

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

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Thanks, Kyle, and good morning, everyone. I'm pleased to be with you today to discuss our second quarter performance and to highlight the momentum we're seeing across our markets as we continue to accelerate into the back half of the year. Q2 was truly a milestone quarter for Materion. Our diverse portfolio of critical materials continues to enable the technologies shaping the future. And our results clearly reflect the role that we play.

Strong end market trends, combined with meaningful new business wins, are driving double-digit growth across the company. Amid unprecedented levels of demand, our teams delivered exceptional performance, supplying the advanced materials our customers depend on, and doing so with unwavering commitment and precision.

We delivered the highest quarterly sales and earnings in our company's history. All three businesses achieved double-digit sales and EBITDA growth. Performance Materials grew value-added sales by 13%, Electronic Materials increased by 15%, and Precision Optics delivered an impressive 26% sales growth. Profitability was even stronger, reflecting outstanding operational leverage and disciplined execution.

For the first time, we exceeded 23% adjusted EBITDA margin, a milestone achievement for the company. Electronic Materials delivered 32% adjusted EBITDA margin, marking its fifth consecutive quarter of expansion and the highest margin on record. Precision Optics surpassed 20% margins, delivering its best profit in more than five years and continuing its strong trajectory of transformational performance.

Across all our businesses, higher volumes, strong price mix, and outstanding operational execution came together to produce record earnings of $1.90 per share, up nearly 40% from a year ago. We generated solid free cash flow in the quarter, driven by strong earnings performance, improvements in working capital, and disciplined capital investments.

Let me provide some color on our sales growth from an end market perspective. Sales to the semiconductor market were up 23% year-over-year as AI continues to drive growth across the leading-edge logic and memory, and we continue to see outsized growth across power and communication markets. We delivered our highest quarterly sales to the aerospace and defense market, fueled by continued strong demand and new business in space and defense applications, along with market recovery in commercial aerospace.

Industrial markets posted strong results across all three segments, led by Performance Materials as data center build-outs are positively impacting non-residential construction and increasing demand for our beryllium nickel spring material. Energy shipments were up more than 20%, driven by our new business wins in next-generation energy applications.

Finally, telecom and data center grew almost 50%, propelled by the AI infrastructure build-out and significant wireless network expansion outside the U.S. As we look to the back half of the year, we're excited about the broad-based strength we're seeing. The demand signals across our key markets remain robust, and our order patterns give us confidence that this momentum will continue to build. What's even more encouraging is that the strength is not isolated. It's accelerating.

We exited the quarter with record backlog, up roughly 30% from last year, and 20% since the start of the year. Incoming orders in the first half reached a new high, growing nearly 30% year-over-year. Defense continues to stand out. We secured $90 million of incoming orders in the first half alone, and now have more than $500 million in open RFQs across major programs. Space orders have doubled year-over-year. Commercial aerospace backlog continues to build, and semiconductor orders are up 20% with a meaningful uptick in demand for high performance memory applications.

These are important data points, and they tell a clear story. Demand for our material solutions continues to strengthen, and the trends driving our markets remain firmly positive. Given the results we've achieved and what we are seeing across our order book, we are increasing our full-year growth outlook for the second consecutive quarter. We now expect mid-teens year-over-year sales growth, reflecting the strengthening demand across our end markets and the applications we serve. And as a result, we are raising our full-year adjusted EPS guidance to a range of $6.80 to $7.20, a roughly 30% increase versus last year at the midpoint, and 12% from the midpoint of our prior guidance.

Before I turn the call over to Shelly, I'd like to take a deeper dive into one of the most exciting and rapidly expanding markets we serve, the space market. Space has become a major growth engine for Materion, and our materials support an exceptionally wide range of mission-critical applications. What distinguishes Materion is not just the range of applications we serve, but the vital role our materials play in ensuring mission success in the most demanding environments, whether it's satellites, telescopes, launch systems, planetary exploration vehicles, or emerging in-space power systems.

Across satellite platforms, our technologies are integral to systems that collect, transmit, and process mission-critical data. We supply filter arrays for Earth observation satellites, optical filters and mirrors for laser communication systems, thermal management materials that support precision optics assemblies, and semiconductor materials that enable high performance computing and next-generation communications at orbit.

In orbital and deep space systems, including telescopes and probes, our beryllium mirrors, optical filters, and beam splitters provide the stability and clarity required for advanced scientific missions. We also support propulsion and imaging systems with engineered alloys and semiconductor sensor materials designed for efficiency and durability in extreme environments.

Our capabilities extend from orbit back to the ground. For ground to space systems, we provide beryllium components, advanced optical coatings, and high-performance filters used in observatories, laser communication ground stations, and next-generation infrastructure that supports the movement of critical data around the world.

We also play an essential role in launch systems, supplying materials for engine components, structural assemblies, and advanced heat shielding systems. Our precious metal and chemical materials enhance engine efficiency and support thermal barrier coatings that are critical to mission reliability. And once spacecraft reach their destination, our materials remain central. In rovers and exploration vehicles, our lightweight structural materials and advanced optical coatings help ensure reliable performance in harsh and unpredictable environments.

Looking ahead, our beryllium and alloyed materials are increasingly being designed into advanced microreactor concepts that will power future in-space propulsion and surface power systems. Across all these applications, the message is clear. Materion is embedded across the full space value chain, from launch to orbit, from exploration to communication, from ground systems to emerging in-space power.

Our materials are enabling the technologies that are expanding human capability and accelerating scientific discovery. This quarter, we strengthened our position even further. We secured a new $15 million program to deliver advanced materials critical to engine performance for a major commercial space customer. This is a meaningful win and a clear signal of the trust customers place in Materion to support their most demanding missions. Q2 was an exceptional quarter.

I'm incredibly proud of what our people have accomplished. Their commitment and hard work were evident across the board and were instrumental in delivering our outstanding results. I'm excited about the trajectory that we're on and look forward to what's next.

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

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

Thanks, Jugal, and good morning, everyone. During my comments, I will reference the slides posted on our website this morning, starting on Slide 11. In the second quarter, value-added sales, which exclude the impact of pass-through precious metal costs, were a record $308.2 million, up 15% from the prior year and up 18% sequentially. This year-over-year increase was driven by our highest quarterly aerospace and defense sales and significant growth seen across semiconductor, industrial, energy, and telecom and data center.

Additionally, as Jugal mentioned, all three of our businesses delivered double-digit year-over-year sales growth, highlighting the strong performance seen across the company. Adjusted earnings per share were a record $1.90, up 39% from the prior year and up 50% sequentially.

Turning to Slide 12, adjusted EBITDA was a record $71.8 million, or 23.3% of value-added sales, an increase of 29% year-over-year with 250 basis points of margin expansion. This increase was driven by higher volume and favorable price mix and strong operational performance, along with the benefit of some one-time items.

Moving to Slide 13, let me review second quarter results by business segment. Starting with Performance Materials, value-added sales are $190 million in the quarter, up 13% year-over-year and up 36% sequentially. This year-over-year increase was driven by significant growth across the aerospace and defense, telecom and data center, energy and semiconductor end markets.

In addition to market strength, the strong sequential increase was driven by new business initiatives and the return to a normalized level of clad strip sales. Adjusted EBITDA was $48.3 million, or 25.4% of value-added sales, up 16% compared to the prior year period with 80 basis points of margin expansion. This increase was driven by higher volume and strong price mix. Sequentially, adjusted EBITDA was up 70% with 500 basis points of margin expansion.

Looking out at the second half of 2026, we expect continued top-line momentum supported by accelerating order book activity across most of our end markets, led by space, defense, and semiconductor.

Turning to Slide 14, Electronic Materials delivered another exceptional quarter. Value-added sales were $87.4 million, up 15% year-over-year, driven by continued strength in semiconductor as AI adoption fuels high demand for semiconductor chips and data storage devices complemented by the benefit of new business wins.

We delivered a record adjusted EBITDA of $28 million, or 32% of value-added sales, up 57% year-over-year with nearly 900 basis points of margin expansion. This marks the fifth consecutive quarter of expanded margins in EM. These outstanding results reflect the higher volume, favorable price mix, and strong operational performance, along with the impact of new business and benefits from the cost optimization work done over the last few years. For the remainder of 2026, we expect to see additional top-line improvement driven by increasing demand from the semiconductor market and continued contributions from new business.

On Slide 15, Precision Optics value-added sales were $30.8 million, up 26% year-over-year, driven by new business wins and growth across all end markets. This marks the segment's strongest quarter since 2021 and its fifth consecutive quarter of top-line growth. Adjusted EBITDA was $6.6 million, or 21.4% of VA sales, up 206% year-over-year with significant margin expansion. This represents the first quarter delivering north of 20% adjusted EBITDA margins since 2021 and the sixth consecutive quarter of bottom-line improvement.

The continued improvement reflects the benefit of the ongoing transformation of our Precision Optics business with the new program wins and operational improvements leading the way. Looking out at the second half, we expect continued top-line growth supported by new program wins along with favorable end market dynamics.

Moving now to cash debt and liquidity on slide 16. We ended the quarter with a net debt position of approximately $421 million and $233 million of available capacity on our existing credit facility with leverage at 1.8x below the midpoint of our targeted range. We saw strong cash performance in the quarter, generating $59 million in free cash flow from higher earnings and working capital improvements with approximately 150% cash conversion. We expect to continue strong free cash flow performance in the back half of the year, targeting roughly 75% conversion for the full year.

Lastly, turning to Slide 17, our robust first half results paired with record backlog and continued order rate momentum give us increased confidence in delivering stronger than anticipated full-year results. We now anticipate mid-teens top-line growth for 2026 and are raising our adjusted EPS outlook to $6.80 to $7.20 compared to our prior guidance of $6 to $6.50. This represents approximately a 30% year-over-year increase at the midpoint and underscores the momentum we are seeing across the company and the strength of our operating performance.

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]. The first question comes from Dan Moore with CJS Securities. Please proceed.

Q: Hi, this is Will on for Dan. Thanks for taking our questions. In defense, orders are up 50% year-to-date. There seems to be prolonged conflicts developing on multiple fronts. How would you describe your outlook for growth, not necessarily for this year, but for 2027 and beyond, relative to where you saw things entering this year?

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Yes. Well, defense has certainly been an important driver of growth in our business. We've been talking the last few quarters about the level of new bookings that we're doing on defense, and they continue to increase every quarter. And then we're also talking about open RFQs that we have, and they've been increasing every quarter. So in fact, the latest data that we shared here is $90 million of incoming orders that we've had year-to-date, and we've got $500 million plus of open RFQs. Last quarter, that number, by the way, was around $300 million of open RFQs.

So with everything going on, I think, in the world and just the general spending that the U.S. is projecting, as well as I would say the allied countries are projecting, we expect this trend to continue, and have defense be a strong driver of growth for our business, not only for this year, but I would expect that, I think, going on as well in the out years. So important market for us and one that I think we are very well suited with our material set to continue to see the growth.

Q: That is very helpful. Thank you. And then just one more. Can you take a minute or two and take a deeper dive into Precision Optics? Obviously, you've done a lot of work on the cost and margin front, but what are the biggest drivers of the top-line growth year-to-date, and where do you see the most opportunity going forward?

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Yes. Well, needless to say, Precision Optics has had a wonderful run over the last five quarters. We made leadership change and just general business changes in that area, and it's paid really, really great dividends for us. The top line has improved. The bottom line has improved even more, and we expect the top and bottom line to continue to do well on an ongoing go-forward basis. We've had significant support from new business activity. The team has been involved in a number of different fronts. In particular, I would say a growing semiconductor market. Also in the defense area, the space area, have been important drivers. Life sciences is an important market for them. Industrial is an important market for them.

So the market growth and market tailwinds certainly have helped, but I think what's really been great is the new business initiatives that the teams have been focused on. Some of those have materialized and are showing up in the growth rate. Others will continue to materialize as we go forward, and hopefully will contribute to further growth in that business.

On the operational side, the team has made significant progress, I think, on the manufacturing, the productivity, the yields. Of course, right sizing the business to the appropriate sales levels, and ensuring that we're delivering to our customers in a timely manner and therefore delivering the right level of margin growth as you've seen. So to deliver 20% plus margins hasn't been seen in the last five years, and so it's really a milestone quarter for that business.

And our expectation is that this business will continue to improve and contribute to the midterm target that we have of the overall company of 23% margin. So we're excited about what the business has achieved, and more importantly, I think we're more excited about what the business can achieve over the next three to five years.

Q: All right. I'll leave it there. Thank you.

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Thank you.

Operator

Next question comes from Mike Harrison with Seaport Research Partners. Please proceed.

Q: Hi. Good morning. Congrats on a strong quarter here.

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Good morning, Mike.

Q: You noted that the space order book is up 100% year-on-year. I assume that's off a relatively small base. Hopefully, at some point, you break out space from the rest of aerospace and defense. Definitely appreciate the details here on Slide 8 that you provided on where you guys participate in the market. I was hoping that maybe you could dig a little bit deeper for us as we look at these applications. Where are you seeing the fastest growth today or if we want to think about maybe where some of the largest addressable markets or largest longer term opportunities could lie, again, referring to the illustration there on Slide 8.

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Yes. Well, first of all, this is a very, very exciting market for us. We've talked about it over the last few years that this used to be a very niche market for us, but of course, it has emerged into one that is extremely exciting, growth-oriented, accelerated growth. I mean just to give you a perspective, I think we said up till last quarter that our business in the last few years, basically in the, let's call it the three to four-year window had increased 5x. I'm here to say that now we're up to 6x growth in the last three or four years.

So the continued growth in the space market is exciting for us. You mentioned that it's off of a small base. I would say not that small. It's a relatively good size business for us. When you look at aerospace and defense for the quarter, I mean you could approximate perhaps around 25% or so, quarter of the business be directionally in the space side of things. So fairly sizable business for us, what it has evolved into. When you look at our biggest markets on that page you're referring to, the slide that you're referring to, certainly launch and satellites are our two largest areas. We have significant content on the launch side.

We have significant content on the satellite side. And then looking at the growth, the in-space propulsion and the surface power. So when you think about powering and providing remote power or quick power to this overall market, we are actively engaged on a number of fronts in that area. There are certainly some boxes there that are more, again niche, more science-oriented or one-off type of activities.

But I think when you look at launch, you look at satellites, strong markets, you look at the power side, really, really high growth opportunity for us. And then when you look at the ground to space, that's I would say a little more of an emerging market as well. So exciting area for us.

Q: All right. Thank you for that. I wanted to revisit this question on Electronic Materials margin and how sustainable it could be. We've discussed in the past that you might be seeing some unusually strong mix as well as the benefits from cost actions that you've taken. But this is a business that historically was more like mid to high teens EBITDA margin. Q2 results, you're basically double that. So I guess given the strength that you're seeing in the order book and the improvement in the cost structure and what appears to be an upgraded mix, where do the margins go from the 32% that you reported this quarter?

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

Mike, I'll start on that one. So certainly we're really excited about the performance of that business this quarter, right? I mean 32%, as you said is something that is really a big step forward from where the business has been. There's a number of factors going on. You talked about the mix. Mix is certainly in play here. We had a very nice mix in Q2, just given on what orders came in the quarter and what we shipped out.

As we look at the order book for the full year, that's probably a richer mix than we'll see all year. But it's undeniable that there's been a big step forward in that business, and it's partly a little bit of volume, but it's a lot of the improvements that have been made in the business and making sure we get the value for our products. So I expect that structurally, that margins are going to be well ahead of last year. This is not a new floor, as I always say.

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Yes. Mike, I think it's important to note that when we had those, you mentioned, the mid sort of teens, high teens types of margins, we made it very clear at that time that this is not where we want this business to be, right? This is an Electronic Materials business, and it deserves, and it needs to have Electronic Materials level margins. So we were never satisfied with the mid-teens and the high teens type of margins that you mentioned.

Frankly, we're not satisfied with where we are, right? We want to continue to drive better sales, better profitability going forward. But of course, we have to manage and balance the growth with the profitability, as Shelly indicated. We're a very balanced company when it comes to, I think supplying in the semiconductor market.

We talked about this before, whether it's power semi, communications, data storage, logic, memory, high bandwidth memory, some of the accelerated growth activities that are going on in logic and memory right now. Of course, data storage with all the data center activity is growing. We really do provide a breadth of product that kind of goes across the entire semiconductor value chain and our goal and objective is to make sure that we never of course, go back to those types of margins, and we continue to build and drive a very balanced portfolio with good margin that should be coming with an Electronic Materials type business.

Q: All right. Thank you for that. And then just kind of a question on raw materials and energy costs and pricing specific to the Performance Materials segment. Can you talk about any impact that you saw from, I guess it's probably more higher energy and freight costs that could impact you there. But just curious, how much pricing is in that 13% growth number that you posted for value-added sales? And are there some materials within Performance Materials, where you can push pricing harder, given that this is a very strong demand environment and you may have relatively limited competition?

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Yes, look, we learned a lot during the COVID timeframe, right? First of all, on how to manage supply, how to manage constraints, and how to make sure that we can manage our operations accordingly. We also learned a lot during the inflationary times and I'll also call it the growth times, about how to manage the appropriate pricing mechanisms and making sure that if we are seeing some cost impact, that we are appropriately discussing those with our customers and making sure that those prices are adjusted too with our customers. We want to make sure that we're not the sponge with regard to that. Our teams continue to do that. They continue to manage it very well. And I think we've got processes in place to be able to do that.

So wherever we see inflationary type impacts, you mentioned energy as an example, if there are scenarios like that, we make sure that we have those appropriate discussions with our customers. So certainly price is an important enabler to our growth, not only in PM, by the way, I mean, it's really across the board, because we want to make sure that we're delivering the value, and then we're getting the appropriate return for that value that we're delivering. So it's an important element, and it's an important element in terms of being able to capture, particularly for the cost increases that we may see from our customers.

Q: All right. Thanks very much. I'll turn it back.

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Thanks.

Operator

Our next question comes from David Silver with Freedom Capital Markets. David, your line is live.

Q: Okay. Good morning. Thank you.

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Good morning, David.

Q: Hey, good morning. So I'll preface my questions by saying these were exceptionally strong results. So the questions I'm having at least the couple of them might sound a little nitpicky But anyway first thing I'd like to ask is maybe about R&D spend and just resourcing to continue to support what looks like pretty strong growth.

But year-to-date, your R&D expense is flattish, and your value-added revenues are up well above double-digits. Would I be correct in thinking, Jugal, that over time, your business is going to become a little more R&D intensive, more collaborations for leading-edge facilitating technology products? And what are your plans maybe in that regard just for staffing and resourcing to support what looks to be some well above trend line growth for your company?

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Yes. Good observation, David. And I can assure you, and I can tell you that R&D is an extremely important enabler because innovation for us is at the core of what we do and making sure that we're providing the solutions to our customers that they need and that they may need going forward. So we are very much focused on that. At the same time, we're very much focused on making sure that many of the R&D activities are actually being funded by our customers, and by various government entities.

When we work with our customers, we make sure that in many cases, just like we do that on CapEx, by the way. I mean, it's a very similar model to the CapEx model, that we work with our customers on what type of support we are able to have with them so that they're jointly funded R&D activities and not just only funded by Materion. So when you look at some of our numbers, we kind of have to make sure that we're keeping all that understood regarding R&D spending. The other element I would think of R&D spending is we are leveraging our portfolio and in a platform development way and going to our customers in a platform development way. The third is leveraging our portfolio in a way that we can grow with our existing technologies and existing solutions that we have.

So I think R&D is a very, very important enabler and one that we're focused on, and I like to think of ourselves as a very sort of research and development-heavy company providing the solutions to our customers, but making sure that we're doing it in a very cost-effective way, leveraging I think support from our customers as needed.

Q: Okay, great. The next question kind of regards trends in sales and along with trends in your order book or your backlog. 15% value-added revenue growth, 30% growth in your backlog. I'm thinking back a few years, during another kind of bullish or very strong growth period for your company and several others that I followed towards the earlier part of the pandemic. And at that time, due to supply chain concerns and some other things, there was definitely a big dose of over-ordering or pre-buying, that worked itself out over the next couple of years. Nice on the way up, but there was a shakeout period to follow.

As you look at your order book overall, what gives you confidence that the orders that you're filling now are really for or the orders that you're taking are really for kind of current demand and maybe not just buffer stocks or safety stocks for your customers?

<u>Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation</u>

Yes, again a good question. What I would tell you is that our order book that we have and the orders that we're getting is broad-based. It really runs across our important end markets that we have and not focused on, first of all, one or two things. Second, I would comment on is that when you look at the type of orders that we're getting and the areas that we're getting the orders in, we believe it is for consumption now, and maybe in the next, let's say, six to nine months, and not some inventory buildup. So let's start with defense. We all know what's going on in the world, and we know what's happening with the overall defense spending globally. And so we believe that's actually for builds that are happening and not inventory buildup.

And we look at space, space is another area where the same applies. When you look at commercial aerospace, I mean you look at the build rates that are going on and the increasing build rates that Boeing and Airbus are having and then now COMAC is coming on board. We believe it is for the orders that they have in place and the build rates that are going up. You look at new energy applications. New energy applications, it is for the things that are going on and the development that CFS is doing or Kairos is doing and other new energy companies are doing and not for a build.

Look at the supplies that we're making in the semiconductor side with memory applications, with high bandwidth memory, high-performance logic, data storage. We know what's going on in the builds, whether it's data centers, whether it's for AI applications. It is for builds that are happening today. So in general, what I would tell you is our order book is broad-based. It runs across the various markets that we have, and we believe it is for applications that are happening now and not necessarily for inventory buildup that may be happening in various markets for the next three to five years. So we feel pretty good about, I think what we're seeing across the board.

Q: Thank you for all the detail. I'll just repeat, my comment or observation was not about your company in particular, but just about a range of companies I was tracking several years ago. So thank you for that.

<u>Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation</u>

Understood.

Q: Last question is really just kind of housekeeping. But going through one of the earlier slides, I believe, when you were talking about revenues. In your commentary, I think you used the term one-time items or special items or something that may have boosted either revenue or EBITDA this quarter. That it counted, it wasn't non-recurring, but maybe it was an unusual item. Did I hear that correctly? And if so, what did that refer to?

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

Yes, I'll take that. You did hear that correctly. Every quarter, we've got some one-time things that usually go both ways. I would say this quarter we had a few that all went the positive way. So it was a little bit more impactful. Call it a few million, $2 million to $3 million in total. Nothing major stands out there. A refund, a settlement, a little bit of royalty income. So just a number of good guys that helped along the results a little bit, but nothing overly material.

Q: Okay, great. I appreciate the clarification. Thank you very much.

Operator

[Operator Instructions]. The next question is from Dave Storms with Stonegate. Please proceed.

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

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

Good morning.

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Good morning.

Q: Just want to maybe start with the new contract win, the $15 million new contract win. Is there anything more you can tell us about this, maybe term or start date or anything like that? And if not, maybe you could just talk generally about how you're seeing the contracts like that in the market. Are they all roughly the same size? Is there a lot more out there? Just anything like that would be helpful.

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Yes. In terms of actually the specific details of the application and the business, we're able to provide what we shared with you already. But this is a program that I'm going to say is probably going to run about maybe about a year, a year and a half. We're basically in the process now, so we would expect probably this level of sales to be finished out by the end of next year. We get contracts that are anywhere from $1 million to, you may recall in space, about a year, a year and a half ago, we announced two, three sort of combined contracts in the same applications worth about $200 million, right? It was a multi-year contract, and it's in fact, it's part of the overall space growth that we are seeing today.

So the contracts vary in size, small and large, but I think this is a fantastic business win for critical materials that are going to be used in engine performance, and we're quite excited about it over the next four to six quarters.

Q: That's great commentary. I appreciate that. And then maybe one more. Going back to defense and some of the drivers that you mentioned earlier that are driving that market. Second-order impact of that, as we've seen, is impact on the energy markets. Just curious as to how you're seeing the energy markets develop. Are operators being slower to move or could that be a bit of a lagger to the defense market or really anything else you're seeing there?

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Energy, of course, has been an important market for us historically. We've been a major player in oil and gas. We continue to be. The oil rig count has not necessarily increased, but we continue to have good applications, I think, on the energy side. But what I think is really more exciting for us on the energy side is the new energy applications that we've been working on. And if those materialize over a period of time, those could mean significant boost to our energy market. So overall, I would say the energy market has been steady in general, but I think it's been boosted for us because of the new energy applications.

Q: Thank you very much. Good luck on the next quarter.

Operator

We have a follow-up question coming from Mike Harrison with Seaport Research Partners. Please proceed.

Q: Hey, thanks. Just a few more for me. First of all, it doesn't look like you've increased your CapEx outlook. And I'm just curious, as you look at kind of the record backlog and the strength in the order book? Can you just talk about where you stand on capacity and how you're thinking about maybe the need for additional growth CapEx in the coming years?

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Yes. Well, we, as you know, pay a lot of attention to CapEx and we paid a lot of attention to how we can get CapEx funding, through our customers, through government entities, through any other type of partnerships and things like that. So we want to make sure that we're very prudent about the level of CapEx spending that we do.

At the same time, we're making sure that we're driving more efficiency in our plants, more productivity in our plants, improving our yields, et cetera, so that we can get more output from the existing CapEx and existing equipment that we have. We certainly have been investing at the rate that is needed to make sure that as the growth is coming through, we're able to deliver to that growth. We don't want to outspend the growth. We want to be very prudent and cautious about that.

But like I said, I think from a capacity standpoint, we are well-positioned to be able to support the growth that's there, And I think we're well-positioned to be able to support the growth that's coming in the next year. It's just, I think great capital management from our team.

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

Maybe just a quick housekeeping comment on CapEx. As you know, we were awarded a $65 million investment to expand beryllium capacity from one of the primes. Some of that money will be spent and refunded or sent to us this year. That number will come through CapEx but is not shown in the CapEx forecast in our materials, just for clarity.

Q: All right. In actuality, the CapEx number is higher than that $75 million you show in the forecast.

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

It will be, right. We'll have funds come in that offset.

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Yes. Mike, this gets back to the strategy that, as you know, we've been leveraging for a number of years now, right? I mean wherever we can, we want to make sure that we're developing joint activities with our customers, right? Taking on responsibility in a meaningful way with our customers.

Q: Okay. And then I guess last question is really, I know it's very early to be looking at 2027, but you guys are looking at 30% EPS growth this year, record backlog, record margin, strong order patterns. As investors are starting to think longer term, are there any modeling assumptions that you're willing to share at this point in terms of how we might think about sales growth or margin performance into next year? Thanks.

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Yes. As you know, for 2027, we'll start to put our heads together and start to talk with our teams later this year and start to put our forecast together and then we share it with you guys in the January-ish, early next year timeframe. What I can tell you and we've been talking about it, of course, is the general direction of where the markets are headed, right? We talk about defense and what's happening and the backlog we have and the growth rate that we've seen. We all see, again, what's happening on the geopolitical and the spending side.

We're seeing what's happening on space. We're seeing what's happening on the AI side, the data center side, the high-performance logic and memory. The need for energy that the world has, especially as data centers become more and more enabled and energy is needed and so on.

So we talk about, of course, the market trends and what's happening in the market trends and the role that we play, and how important of a player we are, I think in those various markets. But of course, we'll have to put all that together and what that means for 2027 and beyond, be able to share that with you guys at another time.

Q: All right. Thanks, Jugal.

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation

Okay.

Operator

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

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

Thank you. This concludes our second quarter 2026 earnings call. A recorded playback of this call will be available on the company's website, materion.com. I'd like to thank you for participating on this call and your interest in Materion. I'll be available for any follow-up questions. My number is 216-383-4931. Thank you again.

Operator

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