Transcript of
Materion Corporation
Third Quarter 2026 Earnings Conference Call
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Participants

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Presentation

Operator
Greetings. Welcome to the Materion Third 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 that this conference is being recorded.

I will now turn the conference over to your host, Kyle Kelleher, Director, Investor Relations and Corporate FP&A. Please go ahead.

Kyle Kelleher - Director, Investor Relations and Corporate FP&A, Materion Corporation
Good morning, and thank you for joining us on our third 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 the remainder of 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 third quarter performance and the outstanding momentum we continue to build across Materion. Q3 was an exceptional quarter and a powerful reflection of the strength of our advanced materials portfolio, the attractiveness of our end market exposure, and the disciplined execution of our global team. Demand continued to accelerate across many of our key markets, and our business delivered outstanding performance, resulting in record sales, earnings, incoming orders, and backlog. These results underscore both the resilience of our business model and our ability to capitalize on favorable market dynamics.

We delivered a record value-added sales of approximately $314 million and highest-ever adjusted earnings per share of $1.93, marking another milestone quarter for the company. Each business segment achieved double-digit year-over-year growth in both sales and earnings, underscoring the strength of our strategy and execution. Importantly, these results were not driven by any single business, customer, or end market. Growth was widespread across the organization, and that breadth gives us considerable confidence in the sustainability of our momentum.

Just as importantly, we expanded margins for the fourth consecutive quarter on a year-over-year basis and continue to make meaningful progress toward our mid-term adjusted EBITDA margin target of 23%. These results highlight the inherent leverage in our business model and reflect the benefits of our ongoing focus on operational excellence, portfolio optimization, value-based pricing, and disciplined execution across the organization. As a result, we are translating strong demand into profitable growth and increasing shareholder value.

The semiconductor market remained a significant source of growth in the quarter, driving the highest quarterly sales in the company's history. Customers continue to invest in next-generation semiconductor technologies, while our strategic growth initiatives generated additional momentum across the business. We delivered our fifth consecutive quarter of year-over-year growth, reinforcing our strong competitive position in the semiconductor value chain.

Aerospace and defense was another standout performer during the quarter, with sales increasing more than 40% year-over-year. Strength was broad-based across defense, commercial aerospace, and space applications, reflecting both favorable market conditions and the value we bring to our customers' most demanding programs. Customer engagement remains robust. Our opportunity pipeline continues to expand, and we are securing positions on an increasing number of mission-critical programs and platforms with strong long-term demand prospects. These trends reinforce our confidence that aerospace and defense will remain a significant driver of growth for Materion in the years ahead.

Another end market demonstrating significant momentum for us is telecom and data center. Sales increased more than 70% year-over-year, delivering our strongest quarterly performance since 2019. Demand continues to be fueled by ongoing investments in data center infrastructure, high-speed connectivity, and network expansion to support accelerating global data consumption. We believe these secular trends position us well for continued growth as customers invest to support rapidly expanding data and connectivity needs.

Perhaps most encouraging is the broad-based nature of the demand we are experiencing across our portfolio. Strong contributions from semiconductor, aerospace and defense, telecom and data center, industrial, and energy applications demonstrate the strength and diversity of our business. Rather than relying on any single market or growth driver, we are benefiting from multiple end markets that are positioned favorably and supported by long-term secular trends. This breadth reinforces the value of our portfolio strategy and gives us confidence in our ability to generate sustainable growth and create value across varying market conditions.

Over the past several years, we have transformed Materion into a more focused, higher-performing advanced materials company aligned with attractive secular growth trends. The performance we are delivering today reflects the success of that transformation. We are capturing larger opportunities, expanding our presence across multiple growth markets, improving profitability, generating strong cash flow, and further strengthening our competitive standing. Most importantly, an increasing share of our business is concentrated in highly differentiated applications where our materials, technologies, and technical expertise enable critical customer outcomes and create lasting competitive advantages. This evolution has strengthened the quality of our portfolio and positioned Materion to deliver sustainable growth.

As strong as our quarterly results were, what excites me most is the momentum we are seeing beneath the surface. We exited the quarter with the highest level of incoming orders and the largest backlog in Materion's history. Year-to-date incoming orders reached a new record, and backlog continued to expand meaningfully, providing strong visibility into future demand. More importantly, this strength is broad-based. This momentum is being fueled by expanding customer technology roadmaps, growing participation in long-duration programs, new

business wins, and rising demand for the advanced material solutions that enable our customers' most critical applications. Together, these indicators provide confidence that the growth opportunities ahead of us remain sustainable.

Looking ahead, we are entering the fourth quarter with unprecedented momentum. Record backlog, record incoming orders, continued strength across our end markets, and strong operating performance provide us with confidence as we move into the final quarter of the year. Our optimism is not based solely on the results we have achieved to date. It is reinforced by what we see on the horizon: expanding customer opportunities; strong demand indicators; and direct feedback from customers that points to continued investment in the markets we serve.

Based on the momentum we are seeing across the business, we expect a meaningful acceleration in sales during the fourth quarter, resulting in high teens top-line growth for the full year. Reflecting this strength, we are raising our full year adjusted earnings outlook to a range of $7.10 to $7.40 per share. At the midpoint, this represents approximately 33% growth over the prior year and reflects both our strong performance year-to-date and our expectations for continued momentum as we conclude what is shaping up to be a record year for Materion.

I would like to thank our employees around the world for their dedication, innovation, and commitment to excellence. Their unwavering focus on safety, quality, operational performance, and customer service continues to be the foundation of Materion's success. I also want to thank our customers and shareholders for their continued trust, confidence, and partnership.

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

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

Thanks, Jugal, and good morning. During my comments, I will reference the slides posted on our website this morning, starting on Slide 10. In the third quarter, value-added sales, which exclude the impact of pass-through precious metal costs, were a record $313.7 million, up 19% from the prior year. Adjusted earnings per share were a record $1.93, up 37% from prior year. As Jugal outlined, the strength in the quarter was seen across the company. I'll focus my comments on how that growth translated into higher earnings, margin expansion, and strong cash generation.

Turning to Slide 11, adjusted EBITDA was $70.7 million, or 22.5% of value-added sales, an increase of 27% year-over-year, with 150 basis points of margin expansion. This marks our fourth consecutive quarter of year-over-year margin expansion and represents continued progress toward our 23% mid-term adjusted EBITDA margin target. The increase in the quarter was driven by higher volume and favorable price mix, demonstrating strong incremental profitability on the quarter's sales growth.

Moving to Slide 12, let me review third quarter results by business segment. Starting with Performance Materials, value-added sales were $178.7 million in the quarter, up

14% year-over-year. This increase was driven primarily by market growth and new business wins across aerospace and defense, telecom and data center, and industrial. Adjusted EBITDA was $42.6 million, or 23.8% of value-added sales, up 12% compared to the prior year period. The year-over-year increase was driven by higher volume and pricing, partially offset by unfavorable mix. Looking out to the fourth quarter, we expect to finish the year strong, with a meaningful step-up in sales driven by large incoming defense orders and continued order acceleration across other end markets.

Turning to Slide 13, Electronic Materials delivered another outstanding quarter. Value-added sales were $103.4 million, up 30% year-over-year, led by continued momentum across the semiconductor market. New business wins and accelerating broad-based demand are fueling the strong growth. Adjusted EBITDA was a record $33.2 million, or 32.1% of value-added sales, up 54% year-over-year, with 500 basis points of margin expansion. This marks the sixth consecutive quarter of year-over-year margin expansion in EM. These results reflect higher volume and favorable price mix, together with contributions from new business and the benefit of the cost optimization work completed over the past several years. Looking at the fourth quarter, we expect to see strong top- and bottom-line results, driven by continued semiconductor outperformance and contributions from new business.

On Slide 14, Precision Optics value-added sales were $31.6 million, up 17% year-over-year, driven by strength across most end markets, coupled with new business. This marks the segment's sixth consecutive quarter of top-line improvement and the highest quarterly sales since early 2021. Adjusted EBITDA was $5.5 million, or 17.4% of VA sales, up 72% year-over-year, with 560 basis points of margin expansion. This increase was driven by higher volume and strong price mix, and signifies the fifth consecutive quarter of double-digit year-over-year improvement. New program wins and operational improvements are translating into sustained profitable growth. Looking into the fourth quarter, we expect continued top- and bottom-line improvement to close out an impressive step forward in the transformation of Precision Optics.

Moving now to cash, debt, and liquidity on Slide 15. We ended the quarter with a net debt position of approximately $382 million and $276 million of available capacity on our existing credit facility, with leverage at 1.5 times the low-end of our targeted range. We generated $46 million of free cash flow in the quarter, bringing year-to-date free cash flow to $85 million, with conversion of approximately 120% in the quarter and 88% year-to-date. Looking ahead, we expect to deliver another strong cash performance in the fourth quarter, supported by higher earnings and continued working capital improvements.

Lastly, turning to Slide 16, I'll cover our 2026 outlook. Our performance through the first nine months has positioned us to deliver a record year. Strong year-to-date results coupled with record backlog and continued order rate momentum give us increased confidence as we close out the year. We now anticipate high teens top-line growth for 2026 and are raising our adjusted EPS outlook to $7.10 to $7.40,

compared to our prior guidance range of $6.80 to $7.20. At the midpoint, this represents approximately 33% growth year-over-year. This is our third outlook increase of the year, reflecting broad-based demand, strong operational execution, and earnings contribution from new business wins.

Taken together, our record sales and earnings, sustained margin expansion, strong cash generation, and strengthening balance sheet leave us well-positioned to continue investing in growth while creating long-term value for shareholders.

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] First question comes from Daniel Moore with CJS Securities. Please go ahead.

Q: Thank you. Jugal, Shelly, good morning.

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation
Good morning

Q: Congrats on obviously really strong results and execution. I guess start with the stock's been all over the place following sort of the AI and semiconductor sentiment, and you gave great detail in the prepared remarks, but maybe contrast that with the cadence of how your demand is building for the core precious metals and tantalum targets in the semi side of the business, as well as what we're seeing in aerospace and defense and industrial. As you look sort of deeper into the crystal ball, what does the runway look like? I'll stop there and maybe kind of shift gears to margins, but just trying to compare and contrast what's going on with gyrations in the marketplace versus the core underlying momentum that's just building in the business.

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation
Yeah. Dan, I think with regard to our growth, the one thing that I would highlight to start with is that it is really broad-based. We have growth across all of our end markets. If you look at the year-to-date growth, we are positive, and in fact, significantly positive on all the end markets. The only end market that's negative for us is consumer electronics, but that's really a specific project issue with the PMI, which we've discussed a number of times. Other than that, I mean, we have significant positive growth on a year-to-date basis across all of our markets.

Our semiconductor market, as you know, we delivered record results here in the third quarter, but we've had growing results for the last six quarters. In aerospace and defense, all three segments of our aerospace and defense, so we talk about commercial aerospace, we talk about space, and we talk about defense. All three continue to grow, and they grew in the third quarter. In our industrial business, PMI index continues to be north of 50. Our year-to-date growth is 11%. In Q3, we grew 8%.

Our beryllium nickel business, which is part of the industrial business, continues to be strong and continues to support all the build activities and infrastructure improvements that are happening in the U.S. Our telecom and data center business continues to do well, highest quarter of sales since 2019 and so on.

So I think what we want to highlight here is that our growth is not based on one particular vertical. It's really based on many, many things that are going on in the marketplace, but then also the new business activities that we have going on in each of our markets. So we're quite excited about where we are. Our order rate, you highlighted it, is about 25% higher since the beginning of the year on a year-over-year basis. Our backlog growing again, and this is sort of a continuing theme that we have given quarter in, quarter out, but our backlog continues to increase, and now we're up to approximately 35% increase on a year-over-year basis for our backlog. Again, that goes across our end markets.

So, certainly the AI side, the data center side is important. The high-performance computing is important. In the semiconductor market, it's also broad-based. Whether it's data centers, whether it's memory, whether it's logic, communication, et cetera, it's really a broad-based growth that we have in each of the markets as well as across the company. So we're excited about kind of where things ended up in Q3. We're really excited about where things are positioned for Q4, as we've noted with our guide change that we have done. And hopefully, these things will then continue as we go on over the next year to more years.

Q: Really helpful. Maybe just talk to your capacity as you look across the businesses, looking to 2027 and beyond, given the strength that you're seeing, are there areas that you might be looking to increase investment or capacity, given those strong tailwinds?

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation
Yeah, absolutely. As you know, we've made good investments over the last several years. We've made a lot of organic investments. Capacity has been an important part of that. Our operational excellence in general has been an important part of that, and we will continue to do that across the plants where we think we need capacity. But our teams have done a great job of driving efficiency, driving higher productivity, getting more out from our facilities with the capacity that we have.

But like you said, at the same time, we're adding capacity. We announced, you will call, an investment, a $65 million investment on the defense side, where we're putting that in. That should be in by the end of next year. So that capacity is going to certainly help us. We've made significant capacity investments over the last two, three years, actually, in our high-performance computing, so tantalum business you highlighted. And so that, I think, gives us more opportunities. So we are making capacity improvements and investments. We will continue to do that. But I think our teams have done a really nice job of driving more output with the equipment and plants that we have and making the incremental investments on an as needed basis.

Q: Very good. Last one, and I'll jump out. Nice, very nice, I would say rebound, but uptick in adjusted EBITDA margins up to 22.5%. Already approaching that near-term target, so careful what you wish for. But looking into 2027 and beyond, just talk to the sustainability of those margins and how much upside might there be as you look out over the next few years. I know we've got that near-term target. Just talk to the kind of operating leverage from here if we continue to see healthy organic growth as we've seen. Thank you again for the color.

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation
Yeah. Well, you'll recall, Dan, our mid-term target was 20% just a couple of years back, and we wanted to make sure that we could deliver that on a more sustainable basis, get a few quarters under our belt. Once we did that, we were able to go in and say, "Okay, we are going to raise that to 23%." And now, we have been delivering consistently north of 20%, and we are approaching, as you said, 23%. We want to make sure that we can get there and deliver it for a few quarters, and I think as we can do that, then we'll sit back and look at what more could be possible. But right now, I think our focus is on making sure that we are delivering 23% on a consistent quarterly basis. Our teams are fully engaged on that and will continue to drive towards that.

Shelly Chadwick - Vice President, Finance and Chief Financial Officer, Materion Corporation
Yeah, Jugal, just to add on a little bit to that, when we set that 23% target, we talked about the fact that we saw the path. We knew what it would take to get there and why we thought 23% was the right number for us to target for. I think our businesses are performing ahead of our expectations, right? So maybe we are getting there a little bit sooner. We are not ready to claim we're here at 23%, but we're certainly seeing that momentum taking us forward a little bit faster than what we saw when we set that target.

Q: All right. Really helpful. I'll jump back with any follow-ups. Thank you.

Operator
Thank you. Next question from Samuel McKinney with KeyBanc. Please proceed with your question.

Shelly Chadwick - Vice President, Finance and Chief Financial Officer, Materion Corporation
Sam, are you there?

Q: Can you hear me?

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation
Yeah, we can hear you now.

Q: Okay. Sorry. Consumer electronics sales, they didn't change much sequentially. Can you provide us with the latest on the path back to normalized volumes for the precision clad and any more details behind the timing that you cited in the slide?

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation
Yeah. So on PMI, we indicated, I think, last time, and I would say the same, that is that we are at production levels that were there prior to the quality issue in Q4 that we had. So we continue to make good progress, and I think we'll continue to be at those levels here as we enter Q4 as well. So really the rest of the consumer electronics is a smaller portion of our business. It fluctuates just based on timing and things quarter to quarter, so I wouldn't really put too much focus on the rest of the business. But we've made great progress on the PMI front, and we are at the production levels, or slightly even better than what we were prior to the quality issue taking place in Q4.

Q: Okay. And then, certainly, your goal is to outpace the general end markets, but the semiconductor value-added sales blew that out. It was increased 20% sequentially. Can you just talk about how you view sustainability of that quarterly value-added sales figure safely above $90 million, and what in particular drove such massive growth this quarter?

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation
Well, I mean, part of the semiconductor chain, as you can imagine, a little bit of timing, but I think in general, our teams have done a fantastic job of not only, as you said, growing with the market, but actually gaining share and winning new business, and certainly value-based pricing is a part of that as well. So we typically compare ourselves to wafer starts. Wafer starts are projected to be somewhere in the 11-ish-% on a year-over-year basis. Our year-to-date sales are roughly around north of 25%, so maybe around 26% on semiconductor. The quarter was at 40%.

We continue to have great momentum in high-performance computing, in making sure that our products are being used on the smaller node, high-bandwidth memory, smaller node chips. We continue to have great pursuit in data storage, making sure we're gaining share and becoming a larger part on the data storage side, and a number of other, I would say, growth initiatives.

When you look at our ALD portfolio, we've talked about the atomic layer deposition portfolio, a strong growth in that business and continues to do well. So, it is really, I would say, a broad-based growth on the semiconductor side in sort of all the sub-verticals of semiconductor, with almost twice, or actually a little bit more than twice, the wafer start projections for the year when you look at it on a year-to-date basis. I think we're well-positioned.

Your question about sustainability, I think we're well-positioned to participate in the semiconductor space as we go forward. And so, we'll put that together in Q4 and kind of get a feel for where we think 2027 is going to be. But I think in general, we are well-positioned to be in these subcategories of semiconductor.

Q: All right. Thank you.

Operator
Thank you. Next question from David Silver with Freedom Capital Markets. Please proceed with your question.

Q: Yeah. Hi. Good morning. Thank you.

Shelly Chadwick - Vice President, Finance and Chief Financial Officer, Materion Corporation
Good morning, David.

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation
Good morning, David.

Q: Hey, thank you. Yes, good morning. So a very robust outlook that you've painted. I'm kind of scratching my head, and I'm going to maybe ask you about resourcing, maybe from a somewhat different angle. But I've heard you say discuss the diversity of end markets that you're now serving and the increasing share of what you call highly differentiated products that you're working on. And when I do look at your income statement, I mean, your R&D spend is kind of flat with the year before and lower than a couple of years ago.

And I'm just wondering about whether, from a talent issue, you have the resources in-house to kind of support what seems to be very strong growth and very impressive string of new business wins. I mean, with that order book, I think, comes the thinking about how to service the customers, not just the immediate order, but longer term. So, maybe discuss the collaborative nature of your R&D or technical support, and what should we think about in terms of your resourcing at the R&D or technical support level going forward? Thank you.

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation
Yeah. Great question, and one that I think we continue to be very focused on and making sure we're making all the right investments in the growth areas, and I'm convinced that we are. We are continuing to leverage, in fact, our partners. So when you see our R&D spending, keep in mind that as we leverage our partners, customers, governments, consortiums, et cetera, we are looking at more of a net spending. And so, our gross spending continues to be good. We continue to make sure that the right things are being done and focused on.

At the same time, we also have AI-related activities. I mean, we're using sort of technology or AI-related activities to sort of augment, I think, on the R&D side. When we also look at, I think, we'll call R&D, or you mentioned the collaborative nature, our sales and marketing efforts are much more technical, right? So you don't have a typical sales organization. We have technical sales. So when we look at our overall pursuit of business, you're looking at the technical sales side, technical marketing,

the R&D, the funding that's happening from external sources, and now certainly leveraging AI tools to be able to drive more efficiency and more productivity in our R&D side. So I'm convinced that we're making the right type of investments to be able to support the order book that's coming in, the backlog that's happening, and I think being able to deliver in a really nice way to our customers.

Q: Okay. Thank you for that. If I could just ask, you have, I think Dan or another questioner talked about your proactive, I would say, investments in adding new capacity a little bit ahead of demand and whatnot. If you were to kind of look at your footprint, your global footprint, you added capacity in Korea and whatnot, and in Electronic Materials more broadly. Is it the case that you want to be as close to your customers as possible as you build out, let's say, Electronic Materials? Or is this the case where you think that the footprint that you've established right now will sustain your growth trajectory, let's say, for the next couple years at least? Thank you.

Jugal Vijayvargiya - President and Chief Executive Officer, Materion Corporation
Yeah. I think we want to do both, right? We want to have these core centers of expertise that we have established in our Electronic Materials business, in other businesses as well, but I'll focus on Electronic Materials since that's what you mentioned. We've established sort of core centers of expertise for each of our facilities. At the same time, we want to make investments, and we have done that, the most recent being the investment that we made in Korea, where we are putting in capacity outside the U.S., close to our customers.

We have made investments in our facility in Europe to make sure that we can support the growth that is there, and we'll continue to look for both organic investments, but then also M&A investments. We want to make sure that we're leveraging, you've seen kind of what we've been able to do with our balance sheet, and we want to be able to leverage that to be able to do perhaps more capacity-related M&A near to our customers, like you mentioned. So I think we want to leverage a best of both worlds, where we have core centers of expertise, but at the same time, we have local manufacturing to be able to support our customers in region.

Q: Okay. Great. Thank you for that. I'll get back in the queue.

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

Kyle Kelleher - Director, Investor Relations and Corporate FP&A, Materion Corporation
Thank you. This concludes our third 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'll be available for any follow-up questions. My number is 216-383-4931. Thank you again.

Operator

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