

# Q1 2021 Earnings Investor Presentation

*April 29, 2021*



**MATERION**

# Agenda

## Introduction

Andrew Vento – Manager, Investor Relations and Corporate Development

## Opening Remarks & Business Update

Jugal Vijayvargiya – President and Chief Executive Officer

## Financial Review

Shelly Chadwick – Vice President and Chief Financial Officer

## Q&A

Question and Answer Session

# Forward Looking Statements and Non-GAAP Financial Information

These slides contain (and the accompanying oral discussion will contain, where applicable) “forward-looking statement” within the meaning of the Private Securities Litigation Reform Act of 1995. These statements involve known and unknown risks, uncertainties and other factors that could cause our actual results to differ materially from the results expressed or implied by these statements, including, but not limited to, the ultimate impact of the COVID-19 pandemic on our business, results of operations, financial condition, and liquidity; the global economy, including the impact of tariffs and trade agreements; the impact of any U.S. Federal Government shutdowns and sequestrations; the condition of the markets which we serve, whether defined geographically or by segment; changes in product mix and the financial condition of customers; our success in developing and introducing new products and new product ramp-up rates; our success in passing through the costs of raw materials to customers or otherwise mitigating fluctuating prices for those materials, including the impact of fluctuating prices on inventory values; our success in identifying acquisition candidates and in acquiring and integrating such businesses, including the integration of Optics Balzers; the impact of the results of acquisitions on our ability to fully achieve the strategic and financial objectives related to these acquisitions, including, without limitation, the acquisition of Optics Balzers being accretive in the expected timeframe or at all; our success in implementing our strategic plans and the timely and successful completion and start-up of any capital projects; other financial and economic factors, including the cost and availability of raw materials (both base and precious metals), physical inventory valuations, metal financing fees, tax rates, exchange rates, interest rates, pension costs and required cash contributions and other employee benefit costs, energy costs, regulatory compliance costs, the cost and availability of insurance, credit availability, and the impact of the Company’s stock price on the cost of incentive compensation plans; the uncertainties related to the impact of war, terrorist activities, and acts of God; changes in government regulatory requirements and the enactment of new legislation that impacts our obligations and operations; the conclusion of pending litigation matters in accordance with our expectation that there will be no material adverse effects; the disruptions on operations from, and other effects of, catastrophic and other extraordinary events including the COVID-19 pandemic; and other risk factors disclosed in periodic reports filed with the Securities and Exchange Commission. Consequently, these forward-looking statements should be regarded as the Company’s current plans, estimates, and beliefs. It is not possible for the Company to identify the amount or significance of future adjustments associated with potential insurance and litigation claims, legacy environmental costs, acquisition and integration costs, certain income tax items, or other non-routine costs that the Company adjusts in the presentation of adjusted earnings guidance. These items are dependent on future events that are not reasonably estimable at this time. Accordingly, the Company is unable to reconcile without unreasonable effort the forecasted range of adjusted earnings guidance for the full year to a comparable GAAP range. However, items excluded from the Company's adjusted earnings guidance include the historical adjustments noted in slides 20 and 21 in the appendix.

The Company does not undertake and specifically declines any obligation to update or publicly release the results of any revisions to these forward-looking statements that may be made to reflect any future events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

To supplement our consolidated financial statements presented in accordance with GAAP, the company considers certain financial measures that are not prepared in accordance with GAAP, including value-added sales (VA sales), adjusted earnings before interest and taxes (EBIT), adjusted net income, adjusted earnings per diluted share and net debt (cash). The company uses these non-GAAP financial measures, in addition to GAAP financial measures, to evaluate our operating and financial performance and to compare such performance to that of prior periods and to the performance of our competitors. Also, the company uses these non-GAAP financial measures in making operational and financial decisions and in establishing operational goals. The company also believes providing these non-GAAP financial measures to investors, as a supplement to GAAP financial measures, helps investors evaluate our operating and financial performance and trends in our business, consistent with how management evaluates such performance and trends. The company also believes these non-GAAP financial measures may be useful to investors in comparing its performance to the performance of other companies, although its non-GAAP financial measures are specific to the company and the non-GAAP financial measures of other companies may not be calculated in the same manner.

For more information on Non-GAAP measures, please refer to the Appendix.

# Opening Remarks & Business Update

Jugal Vijayvargiya

President and Chief Executive Officer

# Q1 2021 Financial Highlights

- **Record for quarterly value-added (VA) sales of \$199 million, up 29% year-over-year**
  - Fourth straight quarter of sequential top line growth
  - All-time high VA sales in Advanced Materials segment
  - Strong demand in several key end markets including semiconductor, automotive, industrial, aerospace and defense
- **Delivered adjusted EBIT of \$21.4 million, an increase of \$11.5 million year-over-year**
  - Adjusted EBIT margin of 10.8% compared to 6.5% in the prior-year period
  - All three segments reported double-digit profit margins for the third consecutive quarter
  - Continued R&D investments, positioning the company for above-market organic growth
- **First quarter adjusted EPS of \$0.82, an increase of 111% compared to \$0.39 in the prior-year period**



# Key Strategic Initiatives

- **Precision clad engineered strip project remains on schedule**
  - Construction of new leading-edge manufacturing facility remains on track
  - Received \$65M in prepayments for the project to date
  - Shipping product today from existing facility
- **Optics Balzers integration nearly complete**
  - Collaboratively combining businesses and identifying customer opportunities; several synergistic initiatives underway
- **Building organic initiatives pipeline**
  - Organic projects in each segment support above-market growth
- **Investing in our facilities and capabilities to support growth**
  - Capital spending of \$100M for 2021 well above average run rate
  - New clad engineered strip plant, expanded capabilities, AI for the factory floor, equipment maintenance to increase yield and up time – among key projects



# Materion Enables Next Gen Applications

**Materion Wins Contract For Optical Lens Components  
In NextGen Luxury Automobile 3D Cockpits**



**Materion Marks 50 Years Supporting Space Observation,  
Exploration and Aerospace Missions With Advanced  
Technology Enabling Solutions**



**Materion's Breakthrough Aluminum Scandium Target Solutions  
Enable Connectivity Potential of 5G and IoT Markets**



**Materion's Strip Product Platform Clicks With Global  
Smartphone OEMs, Meeting Rising Demand For  
Integrated Camera Applications**



# Q1 2021 End Market Performance

Market	Q1 2021 VA Sales	%	vs. Q1 2020	Full Year Outlook	Comments
Semiconductor	\$43.9	22%	 27%		<ul style="list-style-type: none"> <li>Overall demand remains very strong, monitoring chip shortage dynamics</li> <li>Secular growth drivers such as 5G, AI and big data, combined with digital infrastructure build-out, driving global growth</li> </ul>
Industrial	\$36.0	18%	 19%		<ul style="list-style-type: none"> <li>Industrial sales up as recovery from 2020 lows continues</li> <li>Solid opportunities within industrial bearings and plastic mold tooling</li> </ul>
Aerospace & Defense	\$27.5	14%	 44%		<ul style="list-style-type: none"> <li>Defense strong with unusual seasonality in 2021; timing of key program win drove growth</li> <li>Aerospace sentiment becoming more optimistic but well-off prior peaks</li> </ul>
Automotive	\$21.0	11%	 42%		<ul style="list-style-type: none"> <li>Strong YOY growth in EMEA as market ramp-up counters 1Q20 shutdowns</li> <li>Pent-up demand, continued computerization of vehicles and EV batteries driving growth</li> </ul>
Consumer Electronics	\$18.6	9%	 46%		<ul style="list-style-type: none"> <li>Optics Balzers drove majority of YOY increase</li> <li>Increase in multi-camera phones driving voice coil motor opportunities</li> </ul>
Energy	\$10.8	5%	 -15%		<ul style="list-style-type: none"> <li>Conditions in North America oil &amp; gas market remain challenging</li> <li>U.S. rig count down 43% YOY</li> </ul>
Telecom & Data Center	\$9.6	5%	 9%		<ul style="list-style-type: none"> <li>Increased demand for undersea housings</li> <li>Wireless infrastructure build-out in U.S. presents upside</li> </ul>

# Key Takeaways

- **Delivered a very strong first quarter**
  - Record for value-added sales in a quarter for Materion and Advanced Materials segment
  - Fourth consecutive quarter of sequential sales and profit growth
  - Market demand continued to improve; sequential and YOY improvement in majority of key end markets
  - Growing organic pipeline supports above-market growth expectations
- **Continue to execute on key strategic growth initiatives**
  - Continued investment in R&D, positioning the company for above-market organic growth
  - Recorded second full quarter of shipments to the new precision clad engineered strip customer
  - Optics Balzers integration and synergy capture on track
  - Investing in our facilities and capabilities to support strong organic pipeline
- **Well-positioned to win in 2021**
  - End markets showing strength to start off 2021
  - Expect to deliver more than 55% year-over-year improvement in adjusted EPS for 2021

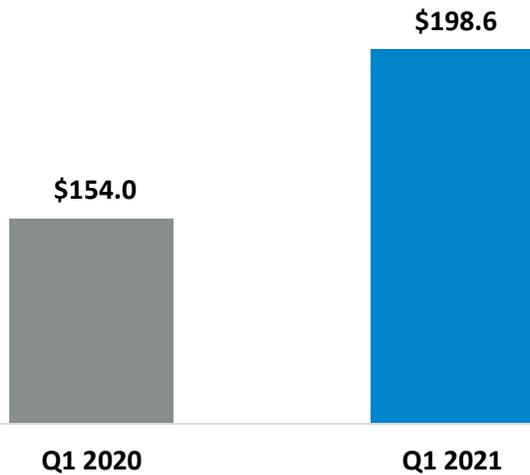
# Financial Review

Shelly Chadwick

Vice President and Chief Financial Officer

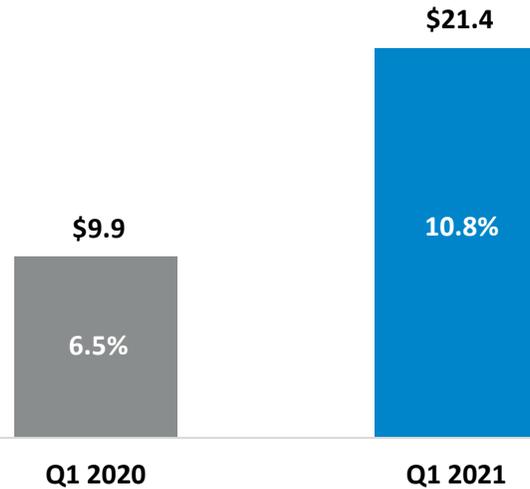
# Q1 2021 Operating Performance

Value-added Sales (\$M)



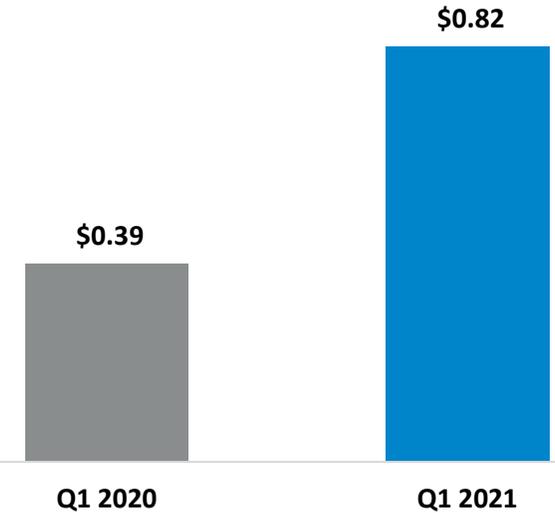
- Value-added sales were \$198.6 million, up 29% from prior year
  - Strong demand in several key end markets including semiconductor, automotive, industrial, aerospace and defense

Adj. EBIT (\$M)



- Adjusted EBIT margin of 10.8%, up 430 bps from prior year
  - Higher volume, strong mix and favorable operating performance, partially offset by increased SG&A expenses
  - Continued R&D investment to drive long-term profitable growth; 3% of VA sales

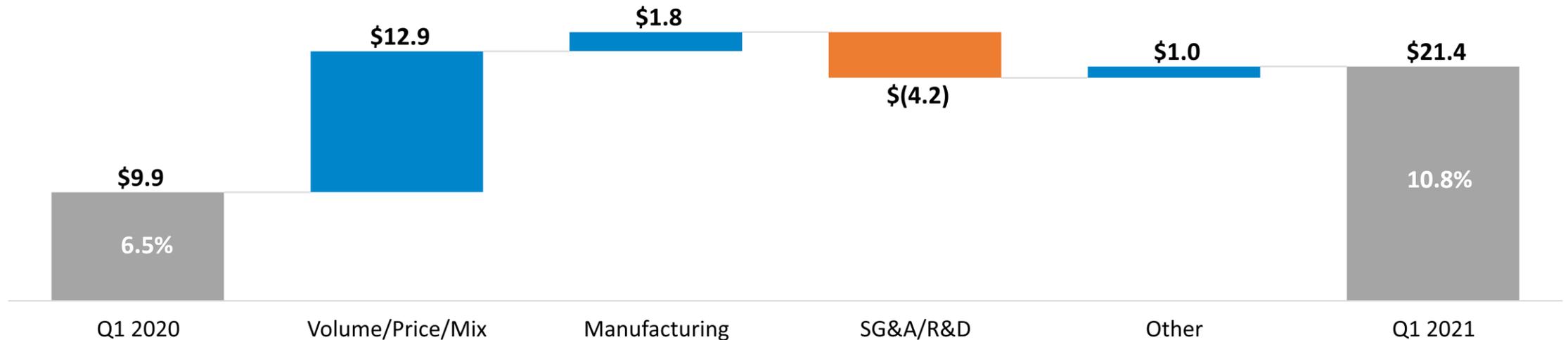
Adj. EPS



- Adjusted EPS of \$0.82 versus \$0.39 in the prior year period
  - Improved sales and margin performance
  - Higher adjusted effective tax rate in Q1 2021

See appendix for reconciliations of value-added sales, adjusted EBIT, adjusted EBIT margin, and adjusted EPS to their most comparable GAAP financial measures. See appendix "Precious Metals Included in Pass-through Metal Costs" for the impact to prior period value-added sales amounts for the revision to include additional metals added during the first quarter of 2021. Certain data presented above has been rounded for presentation purposes.

# Q1 2021 Financial Comparison

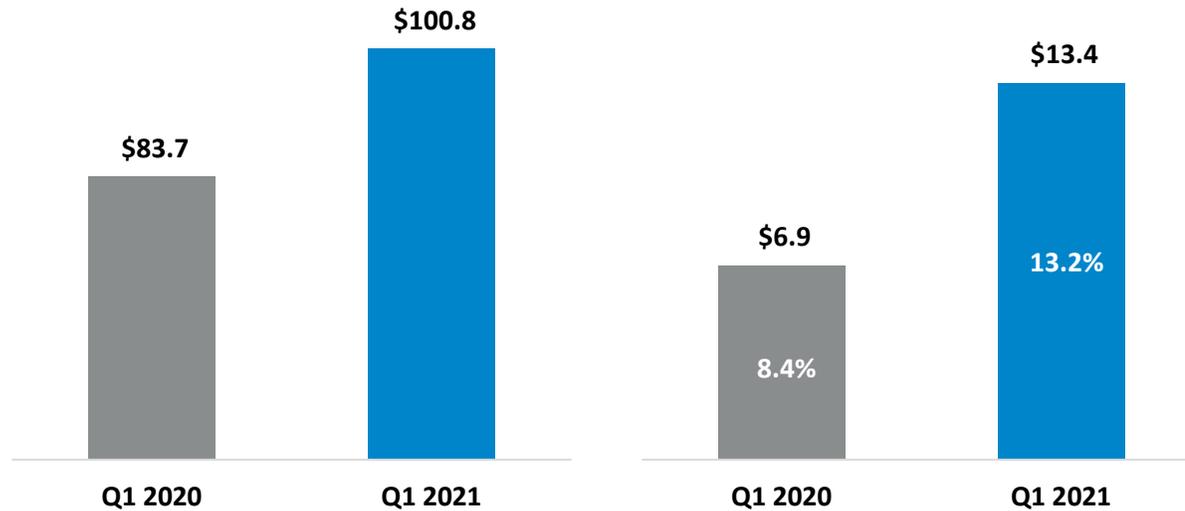


- **Adjusted EBIT of \$21.4 million or 10.8% of VA sales compared with \$9.9M or 6.5% of VA sales in the prior year period**
  - Significant increase in adjusted EBIT driven by strong volumes, favorable price/mix and improved operating performance
  - SG&A reflects increased R&D spend and variable compensation

# Performance Alloys and Composites Segment

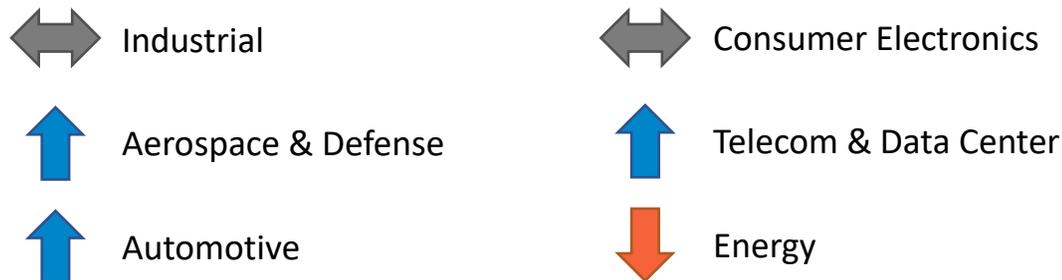
Value-added Sales (\$M)

Adj. EBIT (\$M)



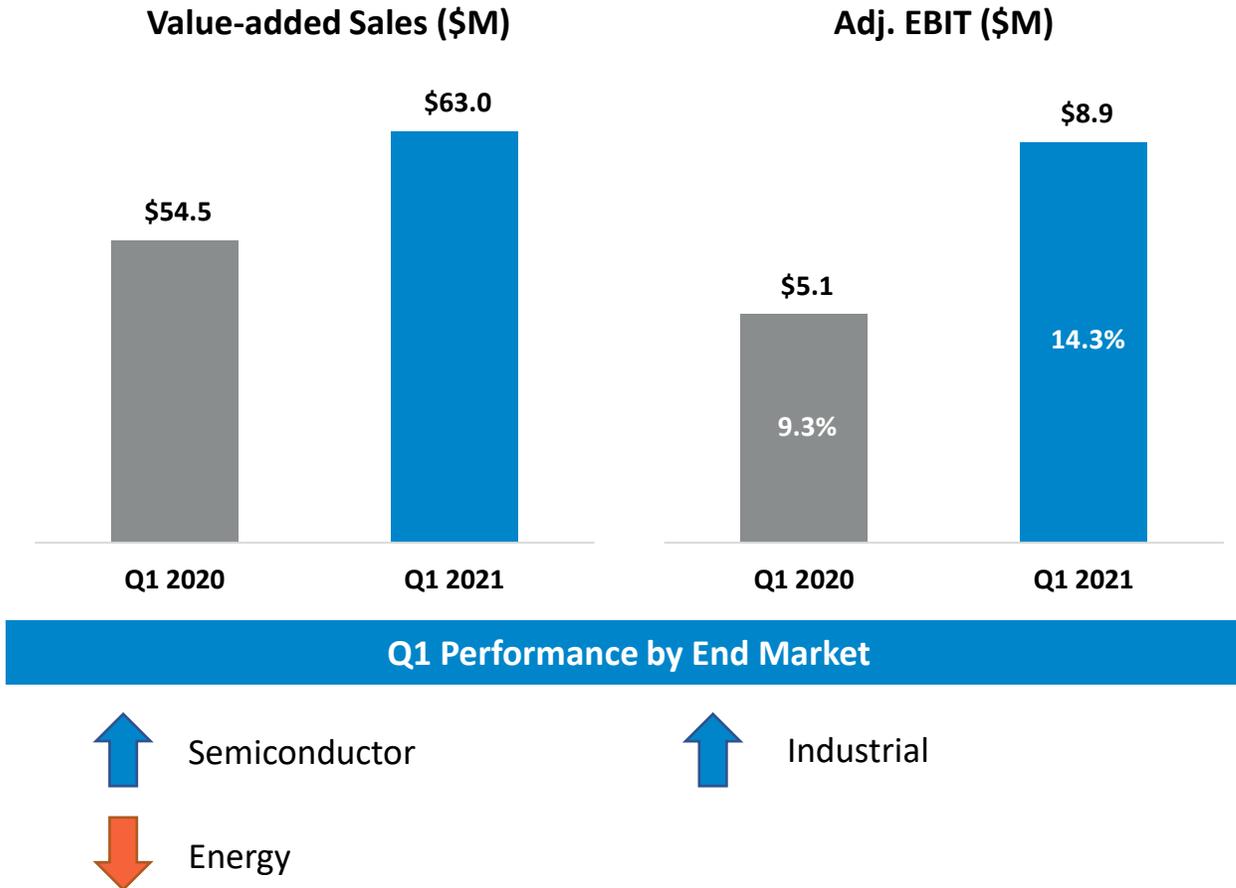
- **Value-added sales of \$100.8 million, up 20% from prior year**
  - Strong performance in the industrial, automotive, aerospace and defense end markets
  - Early sales of Precision Clad Engineered Strip opportunity adding to growth
- **Adjusted EBIT of \$13.4 million, or 13.2% VA sales, up 480 bps from prior year**
  - Driven primarily by higher sales volumes and favorable mix
  - Continued double-digit EBIT margins

## Q1 Performance by End Market



See appendix for reconciliations of value-added sales, adjusted EBIT, adjusted EBIT margin, and adjusted EPS to their most comparable GAAP financial measures. See appendix "Precious Metals Included in Pass-through Metal Costs" for the impact to prior period value-added sales amounts for the revision to include additional metals added during the first quarter of 2021. Certain data presented above has been rounded for presentation purposes.

# Advanced Materials Segment



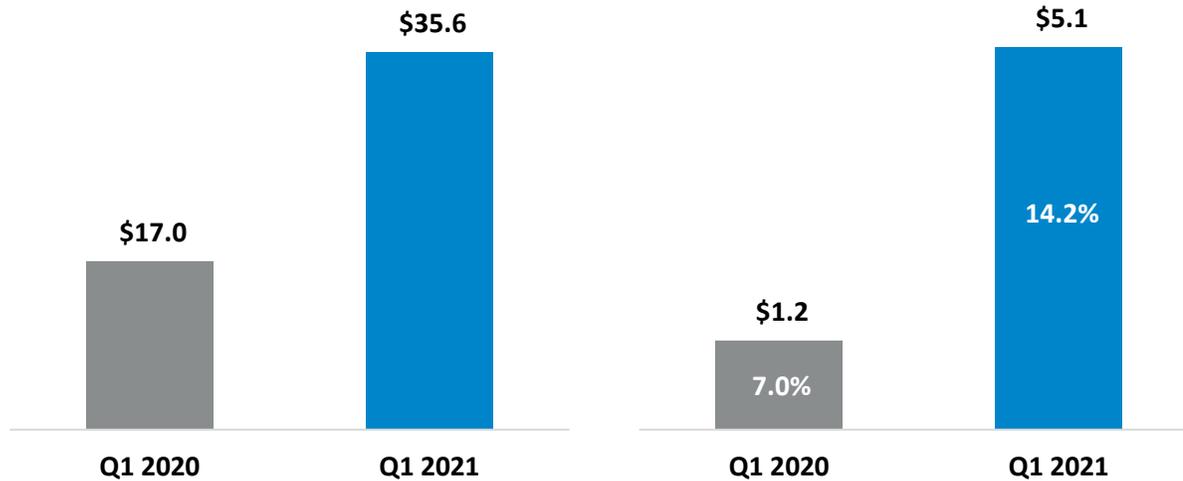
- **Value-added sales of \$63.0 million, up 16% from prior year**
  - All-time record for quarterly VA
  - Higher sales to the semiconductor end market led by commercial initiatives and increased demand
  - Strong growth in the APAC region
- **Adjusted EBIT of \$8.9 million, or 14.3% of VA sales, up 500 bps from prior year**
  - Higher volume and strong operating performance drove improvements

See appendix for reconciliations of value-added sales, adjusted EBIT, adjusted EBIT margin, and adjusted EPS to their most comparable GAAP financial measures. See appendix "Precious Metals Included in Pass-through Metal Costs" for the impact to prior period value-added sales amounts for the revision to include additional metals added during the first quarter of 2021. Certain data presented above has been rounded for presentation purposes.

# Precision Optics Segment

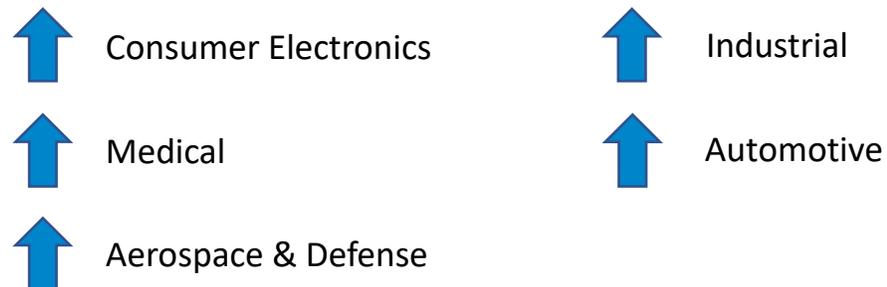
Value-added Sales (\$M)

Adj. EBIT (\$M)



- **Value-added sales of \$35.6 million, up 109% from prior year**
  - Increase in every key end market; impacted by acquisition of Optics Balzers
- **Adjusted EBIT of \$5.1 million, or 14.2% of VA sales, up 720 bps from prior year**
  - Improved product mix aligned with go-forward precision optics strategy

## Q1 Performance by End Market



See appendix for reconciliations of value-added sales, adjusted EBIT, adjusted EBIT margin, and adjusted EPS to their most comparable GAAP financial measures. See appendix "Precious Metals Included in Pass-through Metal Costs" for the impact to prior period value-added sales amounts for the revision to include additional metals added during the first quarter of 2021. Certain data presented above has been rounded for presentation purposes.

# Cash, Debt and Liquidity

(\$M)	Q1 2021	Q1 2020
Short-term Debt	\$ 1.5	\$ 0.9
Long-term Debt	51.4	1.1
<b>Total Debt</b>	<b>\$52.9</b>	<b>\$ 2.0</b>
Cash & Cash Equivalents	18.9	107.6
<b>Net Debt (Cash)</b>	<b>\$34.0</b>	<b>(\$105.6)</b>
TTM Adjusted EBITDA	\$103.8	\$120.5
<b>Net Debt (Cash) / TTM Adj. EBITDA</b>	<b>0.3x</b>	<b>(0.9x)</b>

- **Net debt position of \$34M and approximately \$250 million available on existing credit facility**
  - Continue to have significant available liquidity to support meaningful organic and inorganic growth opportunities
  - Net debt increase due to Optics Balzers acquisition
  - Target leverage range is 1.5x – 3x Net Debt/EBITDA
- **Capital Expenditures planned for \$100M in 2021**
- **Quarterly cash dividend increased for the eighth consecutive year\***
- **No share buyback activity planned**
  - Board authorization in place for up to \$50M worth of shares with \$8.3M remaining
- **Continue to review acquisition candidates**

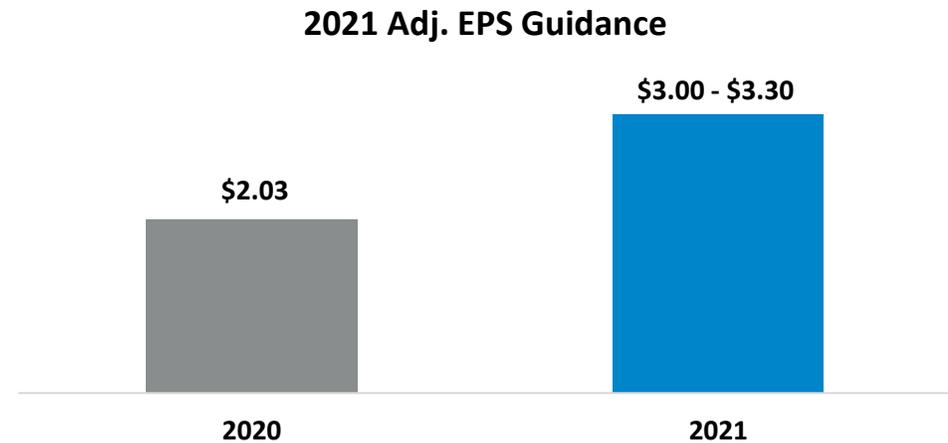
# Q2 and Full Year 2021 Guidance

- **Q2 Guidance**

- Adjusted EPS of \$0.72 to \$0.76, a year-on-year increase of 68% at the midpoint

- **FY 2021 Guidance**

- Adjusted EPS of \$3.00 to \$3.30, a year-on-year increase of over 55% at the midpoint
- Includes new plant start up costs of \$0.20 - \$0.25



<b>2021 Modeling Assumptions</b>	
Capital Expenditures	~ \$100M
Mine Development Costs	\$0M
Depreciation and Amortization	~ \$50M
Effective Tax Rate	17% - 19%



*Note: This guidance was provided on April 29th, 2021 and has not been confirmed or updated. The Company disclaims any obligation to do so based on any subsequent event or any other reason. In addition, as discussed on slide 3, it is not possible for the Company to forecast future adjustments to GAAP earnings.*

# Appendix

# Reconciliation for Value-added Sales

<i>(\$ in millions)</i>	<b><u>Q1 2021</u></b>	<b><u>Q1 2020</u></b>
<b>Net Sales</b>		
Performance Alloys and Composites	\$ 114.1	\$ 99.1
Advanced Materials	204.7	160.1
Precision Optics	35.6	18.7
Other	-	-
<b>Total</b>	<b><u>\$ 354.4</u></b>	<b><u>\$ 277.9</u></b>
<b>Less: Pass-through Metal Costs</b>		
Performance Alloys and Composites	\$ 13.3	\$ 15.4
Advanced Materials	141.7	105.6
Precision Optics	-	1.7
Other	0.8	1.2
<b>Total</b>	<b><u>\$ 155.8</u></b>	<b><u>\$ 123.9</u></b>
<b>Value-added Sales</b>		
Performance Alloys and Composites	\$ 100.8	\$ 83.7
Advanced Materials	63.0	54.5
Precision Optics	35.6	17.0
Other	(0.8)	(1.2)
<b>Total</b>	<b><u>\$ 198.6</u></b>	<b><u>\$ 154.0</u></b>

*The cost of gold, silver, platinum, palladium, copper, ruthenium, iridium, rhodium, rhenium, and osmium is passed through to customers and, therefore, the trends and comparisons of net sales are affected by movements in the market price of these metals. The use of value-added sales allows management to assess the impact of differences in net sales and analyze the resulting profitability without the distortion of metal pricing movements, which the Company believes would be useful information for investors.*

# Reconciliation for Non-GAAP Measures

<i>(\$ in millions)</i>	<u>Q1 2021</u>	<u>Q1 2020</u>
<b>Operating Profit (Loss)</b>		
Performance Alloys and Composites	\$ 13.5	\$ 3.5
Advanced Materials	8.9	5.0
Precision Optics	4.6	(9.6)
Other	(7.3)	(4.5)
Total	<u>\$ 19.7</u>	<u>\$ (5.6)</u>
<b>Special Items</b>		
Performance Alloys and Composites	\$ —	\$ 3.6
Advanced Materials	—	0.1
Precision Optics	0.3	10.8
Other	0.1	0.1
Total	<u>\$ 0.4</u>	<u>\$ 14.6</u>
<b>Non-Operating (Income) Expense</b>		
Performance Alloys and Composites	\$ 0.1	\$ 0.2
Advanced Materials	—	—
Precision Optics	(0.2)	—
Other	(1.2)	(1.1)
Total	<u>\$ (1.3)</u>	<u>\$ (0.9)</u>
<b>EBIT Excluding Special Items</b>		
Performance Alloys and Composites	\$ 13.4	\$ 6.9
Advanced Materials	8.9	5.1
Precision Optics	5.1	1.2
Other	(6.0)	(3.3)
Total	<u>\$ 21.4</u>	<u>\$ 9.9</u>

We have adjusted the results for certain special items such as non-cash impairment charges, non-cash inventory adjustments, cost reduction initiatives (i.e., severance), COVID-19 related costs, merger and acquisition costs, and certain discrete income tax items from the applicable GAAP financial measure. Management reviews the results of operations without the impact of these items to assess profitability from ongoing activities and believes this will assist investors in analyzing our financial results.

# Reconciliation for Non-GAAP Measures Cont.

(\$ in millions)

	<u>Q1 2021</u>	<u>Q1 2020</u>
<b>GAAP as Reported</b>		
Operating profit (loss)	\$ 19.7	\$ (5.6)
Non-operating (income) expense	\$ (1.3)	\$ (0.9)
Net Income (loss)	\$ 16.8	\$ (3.9)
Shares outstanding-Diluted	20,628	20,384
EPS-Diluted	\$ 0.81	\$ (0.19)
<b>Operating Profit Special Items</b>		
Impairment charges	\$ —	\$ 10.8
Non-cash inventory adjustment	—	1.3
Cost reduction initiatives	0.3	2.2
COVID-19 related costs	—	0.2
Merger and acquisition costs	0.1	0.1
<b>Total Operating Profit Special Items</b>	<u>\$ 0.4</u>	<u>\$ 14.6</u>
<b>Operating Profit Special Items - net of tax</b>	\$ 0.3	\$ 11.2
<b>Tax Special Items</b>	\$ (0.2)	\$ 0.7
<b>Special items per diluted share</b>	\$ 0.01	\$ 0.58
<b>Non-GAAP Measures - Adjusted Profitability</b>		
Operating profit	\$ 20.1	\$ 9.0
EBIT	\$ 21.4	\$ 9.9
Net income	\$ 16.9	\$ 8.0
EPS - Diluted	\$ 0.82	\$ 0.39

We have adjusted the results for certain special items such as non-cash impairment charges, non-cash inventory adjustments, cost reduction initiatives (i.e., severance), COVID-19 related costs, merger and acquisition costs, and certain discrete income tax items from the applicable GAAP financial measure. Management reviews the results of operations without the impact of these items to assess profitability from ongoing activities and believes this will assist investors in analyzing our financial results.

# Reconciliation for Non-GAAP Measures Cont.

<i>(\$ in millions)</i>	<u>Q1 2021 TTM</u>	<u>Q1 2020 TTM</u>
<b>GAAP as Reported</b>		
Net income	\$ 36.2	\$ 32.3
Income tax (benefit) expense	(2.6)	7.3
Interest expense	4.4	1.3
Depreciation, depletion, and amortization	36.7	46.3
<b>Consolidated EBITDA</b>	<u>\$ 74.7</u>	<u>\$ 87.2</u>
<b>Total Special Items</b>	<u>\$ 29.1</u>	<u>\$ 33.3</u>
<b>Adjusted EBITDA</b>	\$ 103.8	\$ 120.5

We have adjusted the results for certain special items such as non-cash impairment charges, non-cash inventory adjustments, cost reduction initiatives (i.e., severance), COVID-19 related costs, merger and acquisition costs, mine development costs, and certain discrete income tax items from the applicable GAAP financial measure. Management reviews the results of operations without the impact of these items to assess profitability from ongoing activities and believes this will assist investors in analyzing our financial results.

# Precious Metals Included in Pass-through Metal Costs

(\$ in millions)

2020 Total Company					
Selected Items	Q1	Q2	Q3	Q4	FY
Net Sales	\$ 277.9	\$ 271.5	\$ 287.2	\$ 339.7	\$ 1,176.3
Pass-through cost as reported	119.2	109.9	119.7	148.9	497.7
Value-added Sales as reported	\$ 158.7	\$ 161.6	\$ 167.5	\$ 190.8	\$ 678.6
OPM Pass-through Costs	4.7	2.5	2.6	3.6	13.4
Value-added Sales	\$ 154.0	\$ 159.1	\$ 164.9	\$ 187.2	\$ 665.2

(\$ in millions)

2020 Advanced Materials Segment					
Selected Items	Q1	Q2	Q3	Q4	FY
Net Sales	\$ 160.1	\$ 150.1	\$ 165.6	\$ 195.1	\$ 670.9
Pass-through cost as reported	100.9	95.4	108.0	132.6	436.9
Value-added Sales as reported	\$ 59.2	\$ 54.7	\$ 57.6	\$ 62.5	\$ 234.0
OPM Pass-through Costs	4.7	2.5	2.6	3.6	13.4
Value-added Sales	\$ 54.5	\$ 52.2	\$ 55.0	\$ 58.9	\$ 220.6

(in millions)

2019 Total Company					
Selected Items	Q1	Q2	Q3	Q4	FY
Net Sales	\$ 301.4	\$ 297.8	\$ 306.0	\$ 280.2	\$ 1,185.4
Pass-through cost as reported	113.7	102.9	117.4	117.7	451.7
Value-added Sales as reported	\$ 187.7	\$ 194.9	\$ 188.6	\$ 162.5	\$ 733.7
OPM Pass-through Costs	—	1.8	1.8	3.3	6.9
Value-added Sales	\$ 187.7	\$ 193.1	\$ 186.8	\$ 159.2	\$ 726.8

(in millions)

2019 Advanced Materials Segment					
Selected Items	Q1	Q2	Q3	Q4	FY
Net Sales	\$ 144.0	\$ 133.2	\$ 147.7	\$ 148.9	\$ 573.8
Pass-through cost as reported	86.5	74.9	92.1	96.0	349.5
Value-added Sales as reported	\$ 57.5	\$ 58.3	\$ 55.6	\$ 52.9	\$ 224.3
OPM Pass-through Costs	—	1.8	1.8	3.3	6.9
Value-added Sales	\$ 57.5	\$ 56.5	\$ 53.8	\$ 49.6	\$ 217.4

The cost of gold, silver, platinum, palladium, copper, ruthenium, iridium, rhodium, rhenium, and osmium is passed through to customers and, therefore, the trends and comparisons of net sales are affected by movements in the market price of these metals. Internally, management also reviews net sales on a value-added basis.