

Q3 2021 Earnings Investor Presentation

November 2, 2021



MATERION

Agenda

Introduction

John Zaranec – Vice President, Corporate Controller and Investor Relations

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 statements” 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, our ability to achieve the strategic and other objectives related to the acquisition of HCS-Electronic Materials, including any expected synergies; our ability to successfully integrate the HCS-Electronic Materials business and other such acquisitions and achieve the expected results of the acquisition, 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 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 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 through 23 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 earnings before interest and taxes depreciation and amortization (EBITDA), 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

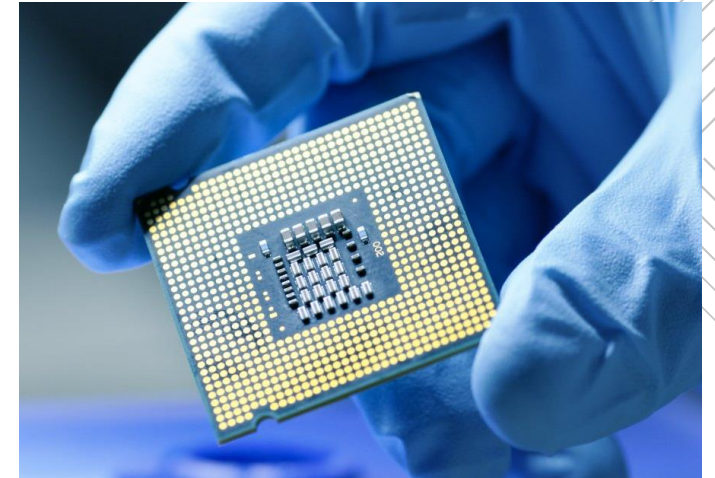
Jugal Vijayvargiya

President and Chief Executive Officer






















Q3 Highlights

Record Value-Added Sales, Adjusted EBIT and Adjusted EPS

- **Delivered value-added (VA) sales of \$216 million, up 31% year-over-year**
 - Continued strong end market demand combined with meaningful organic growth
- **Achieved adjusted EBIT of \$27.8 million, an increase of 97% year-over-year**
 - Adjusted EBIT margin of 12.9%; 430 bps year-over-year and 230 bps sequential improvement
 - Record sales, positive mix, improved pricing, and strong operating performance
- **Adjusted EPS of \$1.10, an increase of 120% versus prior year**
- **Completed transformational acquisition of HCS-Electronic Materials**



Q3 2021 End Market Performance

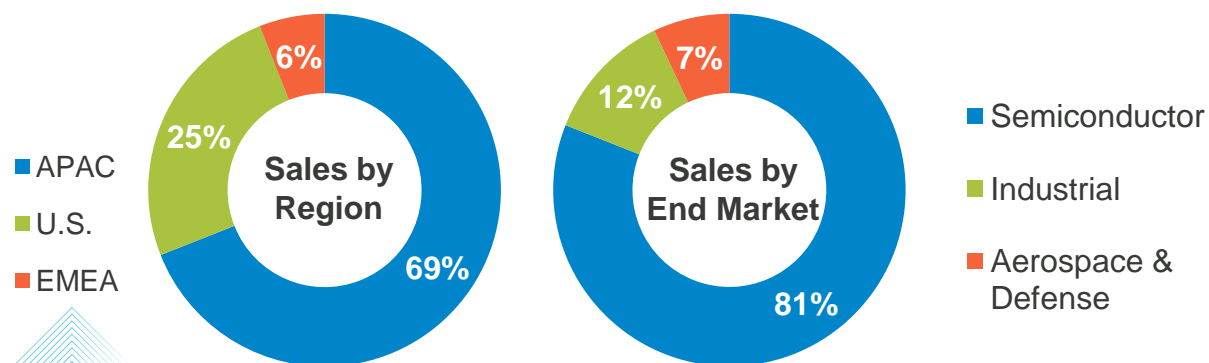
Market	Q3 2021 VA Sales	%	vs. Q3 2020	Full Year Outlook	Comments
 Semiconductor	\$51.3	24%	 33%		<ul style="list-style-type: none"> Demand remains very strong led by increasing applications across customers and end markets
 Industrial	\$42.0	19%	 38%		<ul style="list-style-type: none"> Industrial market recovery driving expansion across all products Increase in construction driving demand for nickel beryllium alloys
 Aerospace & Defense	\$24.0	11%	 14%		<ul style="list-style-type: none"> Defense market continues to remain strong; positive timing impact in Q3 Aerospace gaining momentum with second straight quarter of growth
 Automotive	\$23.7	11%	 81%		<ul style="list-style-type: none"> Doubling sales to EV applications Increasing content across global platforms
 Energy	\$16.5	8%	 39%		<ul style="list-style-type: none"> Oil & gas market returns to growth, far short of pre-pandemic levels Continued growth in smart glass applications
 Consumer Electronics	\$16.3	8%	 3%		<ul style="list-style-type: none"> YoY growth despite chip availability impacting growth in electronic devices
 Telecom & Data Center	\$11.6	5%	 30%		<ul style="list-style-type: none"> Strong connector demand driven by increasing 5G deployments

HCS-Electronic Materials Overview

Company Overview

Location	Newton, MA
2021E Sales ¹	\$145M
2021E Adj. EBITDA Margin ¹	~20%
Countries Served ²	21
Facility Size	~191K sq. ft.
Employees	~140

Sales Mix³



Transaction Summary

Transaction Value

- \$380M purchase price; represents 13x expected 2021 Adj. EBITDA multiple and <10x post-synergies multiple

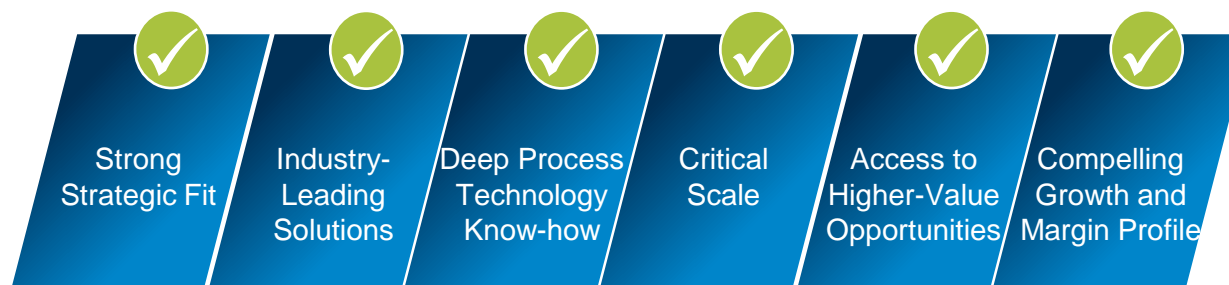
Financial Benefits

- Increases value-added sales by 19.1% and EBITDA by 25.5%¹
- Expected to be immediately accretive to Adj. EPS and Adj. EBITDA by 100 bps¹

Financing

- Transaction structured as a carve-out, stock purchase
- New, 5-year Term Loan and borrowings from newly amended revolver provide attractive financing
- Pro forma net leverage of ~2.7x at close, below 2.0x by 2023¹

Strategic Rationale



Aligned with Megatrends and Well-positioned to Capture Global Growth

¹Results represent unaudited forward-looking estimates and are subject to the forward-looking statements considerations discussed on slide 3 ²2018-2020 ³TTM sales estimates as of 6/30/2021

HCS-Electronic Materials | Compelling Strategic and Financial Benefits



Combination Creates Significant Growth Opportunities and Enhances Materion's Growth and Margin Profile

¹Results represent unaudited forward-looking estimates and are subject to the forward-looking statements considerations discussed on slide 3

Key Takeaways

- **Record results in the third quarter**
 - Record delivery for VA sales, adjusted EBIT and EPS
 - Strong EBIT margins, good progress towards goal of mid-teens
 - Sixth consecutive quarter of sequential sales and profit growth
 - Growing organic pipeline supports continued above-market growth expectations
- **Acquisition of HCS-Electronic Materials accelerates transformation**
 - Significantly increases scale and total addressable market in the high-growth semiconductor market and alignment with global megatrends
 - Provides greater product and geographic diversification and new, above-market growth opportunities
 - Meaningfully increases sales and EBITDA with margin expansion
- **Expect strong finish to 2021, capping off a record year**
 - Delivering on organic initiatives and meeting strong end market demand
 - Increasing full-year adjusted EPS guidance to \$3.73– \$3.83, an 86% year-over-year improvement at the midpoint

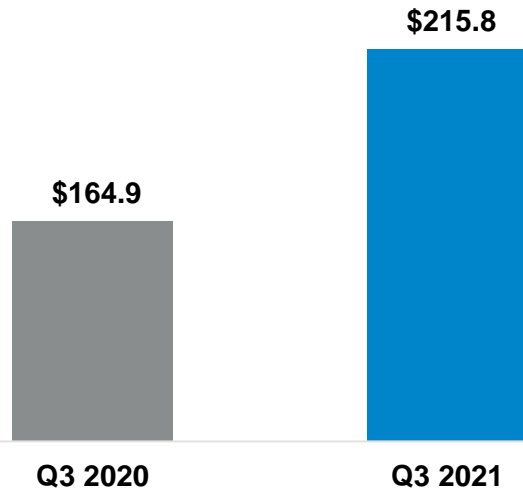
Financial Review

Shelly Chadwick

Vice President and Chief Financial Officer

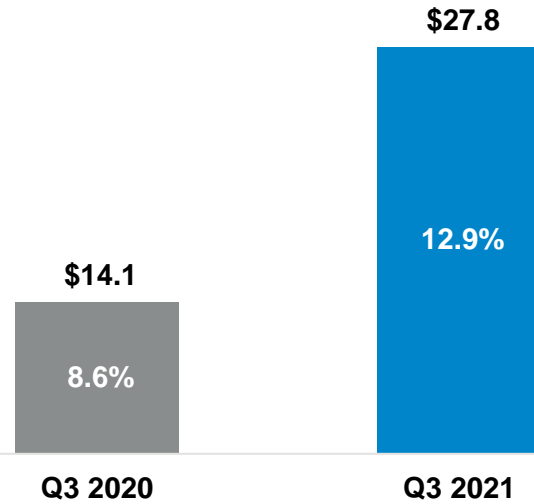
Q3 2021 Operating Performance

Value-added Sales (\$M)



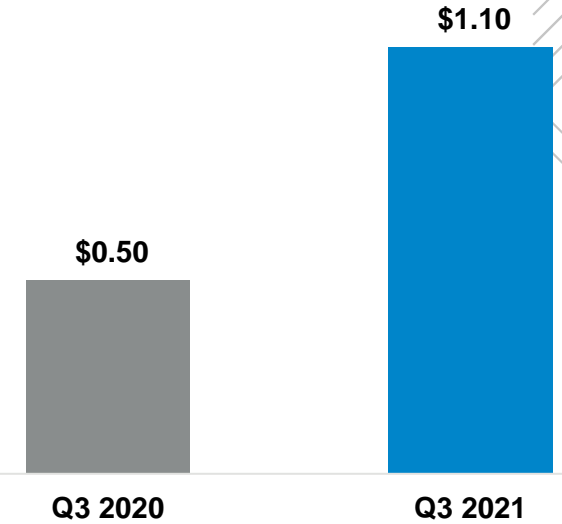
- Value-added sales were \$215.8 million, up 31% from prior year
 - Strong demand across key end markets led by semiconductor, automotive, industrial, and energy
 - Meaningful contribution from organic initiatives pipeline

Adj. EBIT (\$M)



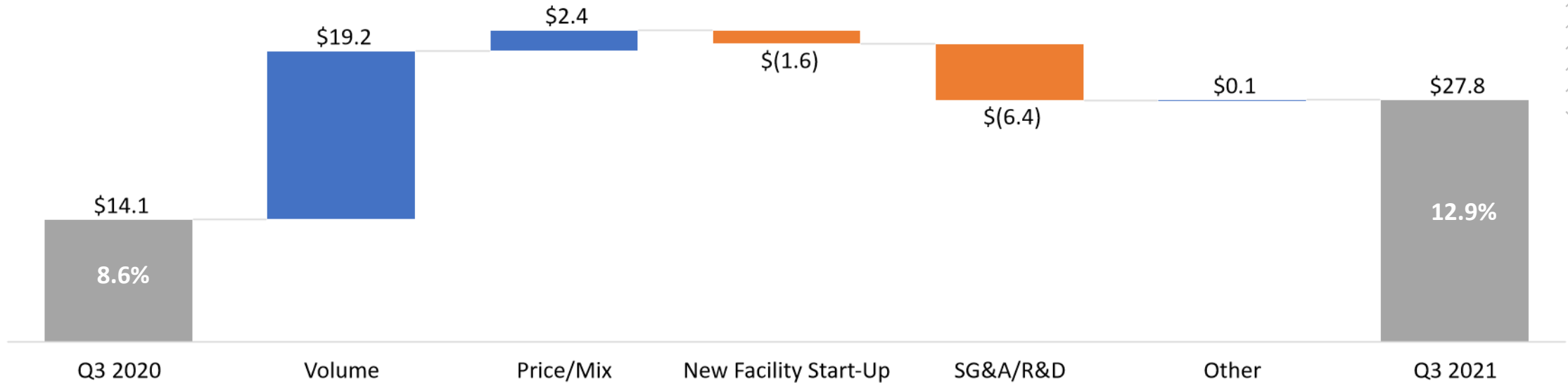
- Adjusted EBIT margin of 12.9%, up 430 bps from prior year
 - Higher volume, positive mix, improved pricing, and favorable operating performance

Adj. EPS



- Adjusted EPS of \$1.10 versus \$0.50 in the prior year period
 - Record sales and profit performance
 - Lower effective tax rate in Q3 due to earnings mix and the reversal of valuation allowances

Q3 2021 Financial Comparison



- **Adjusted EBIT of \$27.8 million or 12.9% of VA sales compared with \$14.1M or 8.6% of VA sales in the prior year period**
 - Significant increase in adjusted EBIT driven by strong volumes, organic outgrowth, favorable mix, and meaningful price improvements
 - New facility start up costs ramping to support precision clad strip project
 - SG&A reflects increased R&D, commercial investments, and variable compensation

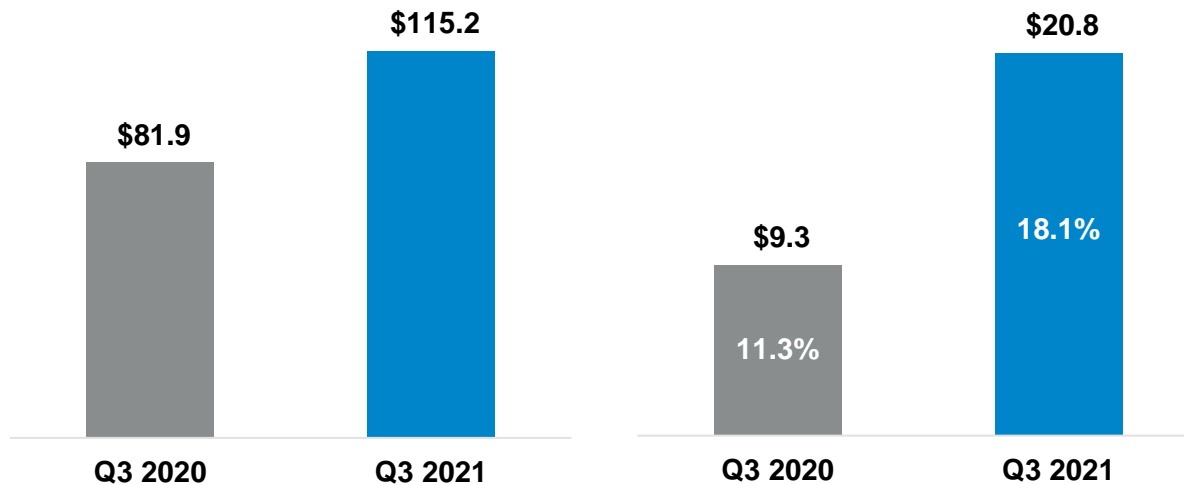


See appendix for reconciliations of value-added sales, adjusted EBIT, adjusted EBIT margin, and adjusted EPS to their most comparable GAAP financial measures. Certain data presented above has been rounded for presentation purposes.

Performance Alloys and Composites Segment

Value-added Sales (\$M)

Adj. EBIT (\$M)



- **Value-added sales of \$115.2 million, up 41% from prior year**
 - Strong performance in automotive, industrial, and telecom & data center markets
 - Sequential and YOY improvement in aerospace and energy
 - Positive timing impacts of beryllium hydroxide shipments and defense program
- **Adjusted EBIT of \$20.8 million, or 18.1% VA sales, up 680 bps from prior year**
 - Increased volume, strong mix, and operating performance
 - Higher defense revenue and timing of beryllium hydroxide shipments contributed

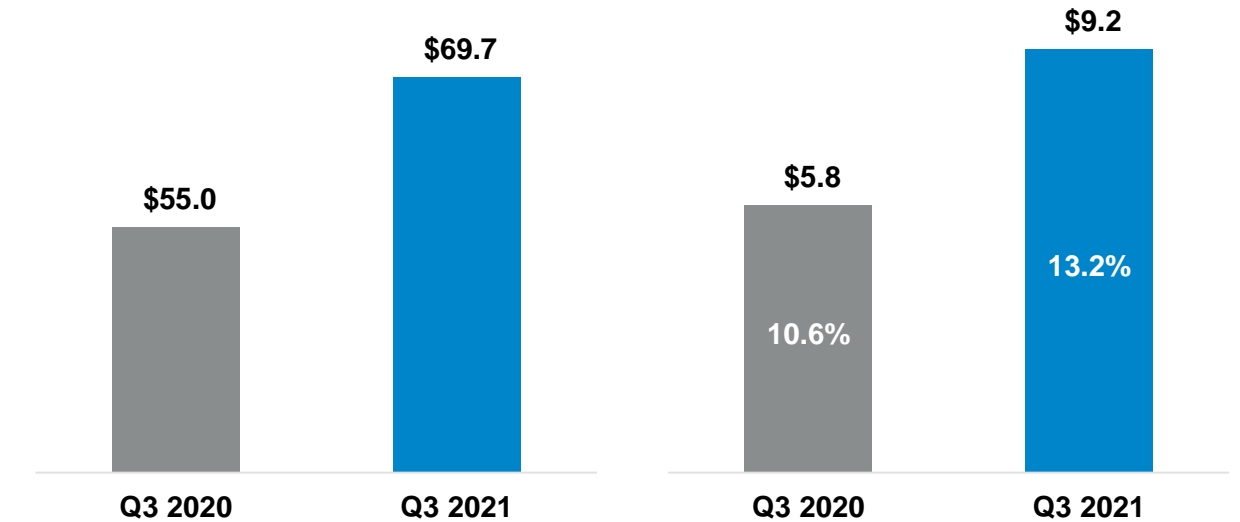
Q3 Performance by End Market



Advanced Materials Segment

Value-added Sales (\$M)

Adj. EBIT (\$M)



- **Value-added sales of \$69.7 million, up 27% from prior year**
 - All-time record for quarterly VA sales, exceeding previous record set in Q2 2021
 - Accelerating organic initiatives and strong demand across all applications
- **Adjusted EBIT of \$9.2 million, or 13.2% of VA sales, up 260 bps from prior year**
 - Increased demand, positive pricing, and strong mix drove margin expansion

Q3 Performance by End Market

↑ Semiconductor

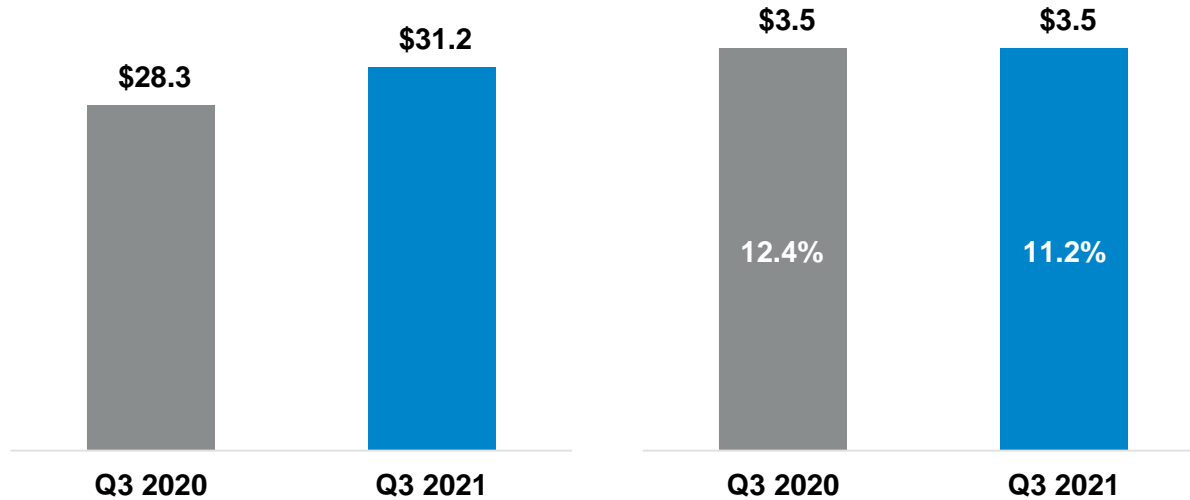
↑ Industrial

↑ Energy

Precision Optics Segment

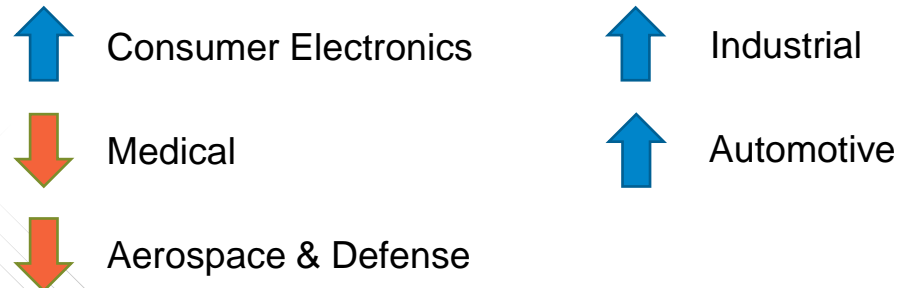
Value-added Sales (\$M)

Adj. EBIT (\$M)



- **Value-added sales of \$31.2 million, up 10% from prior year**
 - Increased demand in consumer electronics, industrial, and automotive markets; partially offset by declines in medical and defense markets
- **Adjusted EBIT of \$3.5 million, or 11.2% of VA sales**
 - Improved margin of 230 bps from Q2 2021
 - Year-over-year margin impacted by lower medical and defense sales
- **Adjusted Year-to-date EBIT margins up 30 basis points from prior year**

Q3 Performance by End Market



Cash, Debt and Liquidity

(\$M)	Q3 2020	Q3 2021	PF Q3 2021 ₁
Short-term Debt	\$122.2	\$0.5	\$0.5
Long-term Debt	6.4	79.0	459.0
Total Debt	\$128.6	\$79.5	\$459.5
Cash & Cash Equivalents	117.8	18.0	18.0
Net Debt (Cash)	\$10.8	\$61.5	\$441.5
TTM Adjusted EBITDA	\$94.5	\$133.1	\$162.1
Net Debt (Cash) / TTM Adj. EBITDA	0.1x	0.5x	2.7x

- **Net debt position of \$61.5M and approximately \$319 million available on existing credit facility**
 - Target leverage range is 1.5x – 3x Net Debt/EBITDA
 - Proforma leverage includes acquisition financing with low-cost term loan; within target leverage range
- **Capital Expenditures planned for \$100M in 2021**
- **Quarterly cash dividend increased for the ninth consecutive year₂**
- **No share buyback activity planned**
 - Board authorization in place for up to \$50M worth of shares with \$8.3M remaining
- **Meaningful available liquidity to support growth initiatives**

¹ See appendix for pro-forma reconciliation. On the closing date, Materion acquired all of the shares of HCS-Electronic Materials for an aggregate purchase price of \$380 million in cash, on a cash-free, debt-free basis. The purchase price is subject to certain customary purchase price adjustments for working capital and other transaction-related items

² Dividend was increased on May 6, 2021

Certain data presented above has been rounded for presentation purposes.

Q4 and Full Year Guidance

- **Q4 guidance**

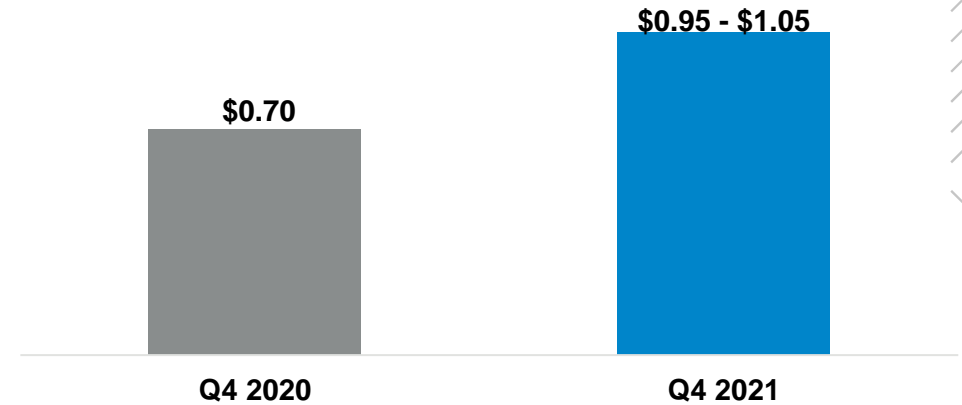
- Adjusted EPS of \$0.95 to \$1.05, an increase of 43% versus prior year at the midpoint
- Includes HCS Electronic Materials contribution of \$0.05, \$0.13 w/o acquisition amortization

- **Updated FY 21 Guidance**

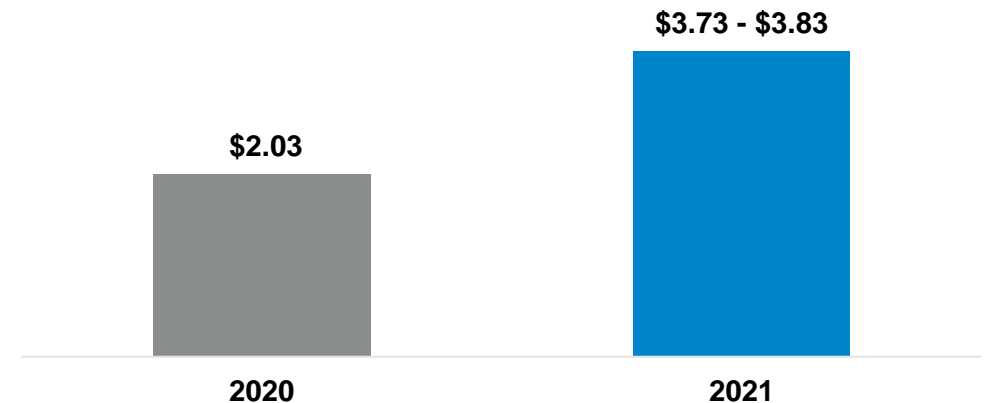
- Adjusted EPS of \$3.73 to \$3.83, an increase of 86% versus the prior year at the midpoint

2021 Modeling Assumptions	
Capital Expenditures	~ \$100M
Mine Development Costs	\$0M
Depreciation and Amortization	~ \$44M
Effective Tax Rate	~17%

Q4 2021 Adj. EPS Guidance



2021 Adj. EPS Guidance



Note: This guidance was provided on November 2nd, 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.

Invest in Materion as we Advance our Strategy



Becoming a global leader in high-performing advanced materials serving diverse and attractive markets well aligned with megatrends



Building robust pipeline with investments in R&D as we focus on developing innovative solutions for our customers



Leveraging strong cash flow and deploying a disciplined, strategic approach toward profitable growth opportunities, both organic and inorganic



Energized management team laser focused on execution and increasing value for all stakeholders

Appendix

Reconciliation for Value-added Sales

(\$ in millions)

	<u>Q3 2021</u>	<u>Q3 2020</u>
Net Sales		
Performance Alloys and Composites	\$ 136.1	\$ 91.2
Advanced Materials	220.7	165.6
Precision Optics	31.2	30.4
Other	—	—
Total	<u>\$ 388.0</u>	<u>\$ 287.2</u>

Less: Pass-through Metal Costs

Performance Alloys and Composites	\$ 20.9	\$ 9.3
Advanced Materials	151.0	110.6
Precision Optics	—	2.1
Other	0.3	0.3
Total	<u>\$ 172.2</u>	<u>\$ 122.3</u>

Value-added Sales

Performance Alloys and Composites	\$ 115.2	\$ 81.9
Advanced Materials	69.7	55.0
Precision Optics	31.2	28.3
Other	(0.3)	(0.3)
Total	<u>\$ 215.8</u>	<u>\$ 164.9</u>

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

(\$ in millions)	<u>Q3 2021</u>	<u>Q3 2020</u>
Operating Profit (Loss)		
Performance Alloys and Composites	\$ 20.9	\$ (0.4)
Advanced Materials	9.3	5.7
Precision Optics	3.3	1.4
Other	(12.3)	(7.3)
Total	\$ 21.2	\$ (0.6)
Special Items		
Performance Alloys and Composites	\$ —	\$ 9.9
Advanced Materials	—	0.1
Precision Optics	—	1.9
Other	5.4	1.7
Total	\$ 5.4	\$ 13.6
Non-Operating (Income) Expense		
Performance Alloys and Composites	\$ 0.1	\$ 0.2
Advanced Materials	0.1	—
Precision Optics	(0.2)	(0.2)
Other	(1.2)	(1.1)
Total	\$ (1.2)	\$ (1.1)
EBIT Excluding Special Items		
Performance Alloys and Composites	\$ 20.8	\$ 9.3
Advanced Materials	9.2	5.8
Precision Optics	3.5	3.5
Other	(5.7)	(4.5)
Total	\$ 27.8	\$ 14.1

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, mine development 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>Q3 2021</u>	<u>Q3 2020</u>
GAAP as Reported		
Operating profit	\$ 21.2	\$ (0.6)
Non-operating (income)	\$ (1.2)	\$ (1.1)
Net Income	\$ 18.2	\$ 5.5
Shares outstanding-Diluted	20,657	20,592
EPS-Diluted	\$ 0.88	\$ 0.27
Operating Profit Special Items		
Mine development costs	—	7.3
Non-cash inventory adjustment	—	(1.5)
Cost reduction initiatives	—	2.6
COVID-19 related costs	—	0.8
Merger and acquisition costs	5.4	5.5
Foreign currency hedge gain	—	(1.1)
Total Operating Profit Special Items	<u>\$ 5.4</u>	<u>\$ 13.6</u>
Operating Profit Special Items - net of tax	\$ 4.1	\$ 10.6
Tax Special Items	\$ 0.4	\$ (5.8)
Special items per diluted share	\$ 0.22	\$ 0.23
Non-GAAP Measures - Adjusted Profitability		
Operating profit	\$ 26.6	\$ 13.0
EBIT	\$ 27.8	\$ 14.1
Net income	\$ 22.7	\$ 10.3
EPS - Diluted	\$ 1.10	\$ 0.50

We have adjusted the results for certain special items such as certain foreign currency hedge gains, 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.

Reconciliation for Non-GAAP Measures (Cont.)

(\$ in millions)

GAAP as Reported

	Q3 2021 TTM	Q3 2020 TTM
Net income	\$ 61.0	\$ 21.7
Income tax expense (benefit)	9.0	(4.3)
Interest expense	3.5	3.0
Depreciation, depletion, and amortization	42.9	41.1
Consolidated EBITDA	\$ 116.4	\$ 61.5
Total Special Items	16.7	33.0
Adjusted EBITDA	\$ 133.1	\$ 94.5
HCS-Electronic Materials Proforma EBITDA ¹	29.0	
Q3 2021 Proforma Adjusted TTM EBITDA	\$ 162.1	

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.

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