Qnity Earnings

Third Quarter 2026 Earnings Transcript

Meg Miller, Vice President, Global Communications

Thank you and welcome to our third quarter 2026 earnings call. Joining me today are Jon Kemp, our Chief Executive Officer, and Ken Rizvi, our Chief Financial Officer, who joined us a few weeks ago. Earlier today, we issued our earnings release, along with a supplemental slide presentation which can be found on our Investor Relations website.

Before we begin, I'd like to remind you that today's discussion will include some forward-looking statements. These statements represent our best view of predictions and expectations for the future, but numerous risks and uncertainties may cause actual results to differ. Please refer to our earnings release and SEC filings for a discussion of these risks. We'll also be discussing certain non-GAAP financial measures, and I refer you to our earnings materials for information regarding our non-GAAP financial measures and reconciliations to the most directly comparable GAAP measure.

With that, it's my pleasure to turn it over to Jon.

Jon Kemp, Chief Executive Officer

Thank you, Meg, and good morning, everyone. Let me start by introducing you to Ken Rizvi, our new CFO.

Ken brings a proven track record as a public company CFO as well as significant experience in the Semi industry. While Ken has only been with us a few weeks, it's clear that he shares our commitment to growth, operating discipline and long-term value creation. He's already been engaging closely with our teams, and I'm pleased to have him with us today as we build on the progress of our first year as an independent company.

Over the past 12 months, we've executed a focused strategy that builds on more than 50 years of technology leadership to become the premier solutions provider across the semiconductor value chain. That strategy is delivering results as AI accelerates two industry shifts: shrink and stack. The next era of computing is being shaped not only by smaller, more powerful chips, but also by stacking more of them into 3D architectures. As designs add layers and complexity, materials intensity multiplies, making our innovation even more critical to performance, yield and reliability. This is a powerful long-term growth driver, and means more Qnity content in every device.

Our broad portfolio, deep customer relationships, and local execution model enable us to engage early with system-level solutions from the front-end to the back-end. As the pace

and magnitude of industry capital investments increase, this means additional content and share gain opportunities. As customers scale, our design wins enable durable growth and attractive returns for our shareholders.

Financial Results Review

Our third-quarter results provide clear evidence that this strategy is translating into strong financial performance. Net sales were $1.6 billion, with organic growth of 22% year-over-year. Adjusted Operating EBITDA was $503 million, growing 36% year-over-year, and adjusted earnings per share increased 55% year-over-year to $1.46. This marked our 10th consecutive quarter of profitable organic growth, reinforcing our technology leadership and consistent execution.

In Semiconductor Technologies, we had strong performance with organic sales growth of 16% year-over-year and an adjusted EBITDA margin of 36%. Advanced logic and memory remained impactful drivers of our strong quarterly results. Higher fab utilization and advanced node scaling drove demand for our semi fab materials. In addition, demand for Kalrez, our semiconductor equipment consumables business primarily tied to deposition and etch, has grown significantly this year.

Interconnect Solutions had another great quarter, with organic sales growth of 29% year-over-year and an adjusted EBITDA margin of 31%. Thermal management, advanced packaging, and AI printed circuit boards remain the segment's fastest-growing platforms driven by AI tailwinds and rising data center demand.

Our third-quarter results show that we're executing well, our technology is delivering value for customers, and the transition to 'shrink and stack' is creating meaningful opportunities for our business.

Innovation Strategy and Portfolio

Qnity has one of the industry's broadest materials solutions portfolios, spanning front-end materials used to manufacture advanced chips through back-end advanced packaging, interconnect and thermal solutions. That breadth positions us to solve increasingly complex challenges across the chip and broader system.

In advanced packaging, Qnity is helping drive a major shift in semiconductor performance. Our integrated platform spans semi fab materials, like CMP and lithography, as well as interconnect materials like plating technologies, dielectrics and fine-line patterning. These solutions enable the high-performance integration and complex manufacturing processes required for advanced packaging architectures like CoWoS, EMIB and HBM. Increasing

materials intensity expands our content-per-package, enabling Qnity to grow faster than overall package volumes.

We're also working with customers earlier in the design process than ever before on future architectures like panel-level packaging, hybrid bonding, and glass-core substrates. Those earlier conversations allow us to bring our industry-leading portfolio and deep engineering expertise together into system-level solutions that help customers improve yield, accelerate development and scale next-generation architectures.

Thermal management is our fastest-growing platform and has become fundamental to AI performance. For example, as more powerful logic chips and memory modules are tightly packed into AI applications, heat builds quickly and can limit performance and reliability. Our expansive portfolio manages heat at every level, from the chip and memory components to the board and broader system, giving us more opportunities to help customers optimize system efficiency and maximize AI compute.

Our decades-long experience gives us a deep understanding of customer roadmaps and where devices are headed so we can bring together the right materials and engineering expertise for their most critical solutions. Through Apple's American Manufacturing Program, we're advancing materials and technologies for semiconductor manufacturing and advanced electronics, including Qnity's U.S.-produced camera films for the variable-aperture camera system in the iPhone 18 Pro.

The innovation examples I shared become a lasting growth engine when our materials earn a place in a customer's manufacturing process. That's the power of a Process of Record, or POR win, and why they're at the heart of our business model. Once our material is qualified in a customer's process, it can generate repeatable revenue through the life of that technology. Here's what that means: on average our PORs last five to ten years and as production scales, every wafer or system creates steady, repeatable demand.

Let me give you one example of how we're seeing that model play out today. We've secured multiple POR wins across today's leading technologies for advanced nodes, advanced packaging, and thermal management. These wins are driving substantial growth with more capacity still to come both this year and in 2027.

More recently, we've strengthened our leadership position with an increasing number of significant POR wins for 2 nanometer and HBM4, which are now entering production. Each technology transition results in higher materials intensity and more content per wafer.

We are actively engaged in the next wave of growth with the new generations of advanced logic and memory. Overall, we're on pace to exceed last year's record POR wins, with the majority tied to shrink and stack inflections. That progression, from early customer

engagement to qualification, production, and years of repeatable revenue, gives us confidence in durable, multi-year growth across the stack.

Industry and End Markets Overview

Beyond our leading POR positions, the industry trends we're seeing reinforce our confidence in the growth trajectory ahead.

First, healthy customer utilization is supporting demand for our consumables today. Advanced logic and DRAM fabs are tracking in the high-80% range, while NAND and mainstream logic continue to improve, with most customers in the low to mid-80s.

Second, customers are investing in new capacity to address strengthening demand across the semiconductor value chain. We're tracking more than 15 advanced fabs, and a handful of mature node fabs, with production targeted within the next year. For our business, the key timing is when those facilities start running wafers. Once equipment is installed, process qualification can take 12 to 18 months. From there, materials demand builds as customers ramp toward full capacity. While the scale of the industry build out is significant, the increase in total wafer volume will come over time. For Qnity, that creates a multi-year opportunity as our qualified materials scale with customer production and reinforces our confidence over the long-term.

Finally, AI adoption is broadening beyond data centers into physical AI across factory automation, aerospace and defense, and autonomous driving. Our materials help enable these applications, extending our growth opportunities across a more diverse set of end markets.

Now, let me pass it over to Ken to cover our results in more depth.

Ken Rizvi, Chief Financial Officer

Thank you, Jon, and good morning. I'm very excited to be here with you and the talented team at Qnity. In my first month, what has stood out most is the unique combination of our industry leading materials portfolio that spans the semiconductor ecosystem, our commitment to innovation, and a culture focused on winning through collaboration and execution.

Materials innovation makes every new generation of chips and broader system improvements possible, and Qnity sits at the center of this. As Jon highlighted earlier, by partnering with customers early on their technology roadmaps, we have an ability to secure

POR wins that can provide years of repeatable revenue and give us the confidence in our ability to drive long-term sustainable growth in our business.

I'm excited to partner with Jon and the leadership team to ensure we allocate capital with discipline and maximize the value from the innovations we enable. Beyond revenue growth, we will be increasingly focused on improving our gross margin profile and driving long-term earnings per share expansion.

From a capital allocation perspective, our priorities remain the same. Our first priority is to continue strengthening our organic business and to further scale our industry leading positions. Second, we will evaluate opportunities to augment our portfolio through M&A, but will remain disciplined and returns-focused in our approach. Our thermal business, Laird, is an excellent example of this approach. And finally, we will continue to return capital back to our shareholders through share repurchases and dividends while maintaining a strong and resilient balance sheet.

Now, let me turn to our performance in the third quarter.

We delivered another quarter of strong results.

Net sales were $1.6 billion, an increase of 22% year-over-year and 9% sequentially.

Adjusted gross margin was 47.8%, up 270 basis points year-over-year and 120 basis points sequentially.

Adjusted operating EBITDA was $503 million, up 36% year-over-year and 17% sequentially.

And adjusted EBITDA margin was 32.3%.

Adjusted earnings per share for the third quarter was $1.46, up 55% year-over-year and 23% sequentially.

The combination of strong volumes, operating leverage and favorable mix supported our overall financial performance.

Segment Review

Now, turning to our segment results for both Semiconductor Technologies and Interconnect Solutions. Both segments delivered their highest net sales and adjusted operating EBITDA of the year.

Semiconductor Technologies had net sales of $797 million in the third quarter, an increase of 15% year-over-year and 7% sequentially.

Semiconductor Technologies adjusted gross margins for the quarter were 50.2%.

Adjusted operating EBITDA was $285 million for the third quarter.

The primary growth driver continues to be our advanced nodes portfolio which grew 25% year-over-year and now represents approximately 44% of our semiconductor-related revenue, up from 42% in the first half of the year.

In our Interconnect Solutions segment, we delivered net sales of $759 million in the third quarter, an increase of 30% year-over-year and 11% sequentially.

Interconnect Solutions adjusted gross margins for the quarter were 45.3% and adjusted operating EBITDA was $236 million for the third quarter.

Thermal management, advanced packaging, and AI PCBs continued their strong momentum and were helped by consumer electronics seasonal builds during the quarter.

Financial Profile and Capital Allocation Review

Now, let me turn to our balance sheet and cash flow metrics.

We exited the third quarter with cash and cash equivalents of $1.1 billion. Adjusted free cash flow generation was strong at $320 million, bringing us to $607 million of adjusted free cash flow year-to-date.

This reflects strong operating performance and execution of our disciplined capital allocation strategy.

Our total debt outstanding is approximately $4 billion with net leverage at approximately 1.7 turns.

Capital expenditures were $78 million for the quarter and $290 million year-to-date, as we continue to invest in our organic growth initiatives. For the year, we expect to invest approximately $450 million. We also continue to deliver capital returns to shareholders through our quarterly dividend and $25 million of share repurchases during the quarter. Year-to-date, we have returned $125 million through share repurchases and our dividend.

Guidance

Turning to our outlook, we are raising our full year revenue expectations by $200 million and adjusted EPS by $.50 at the midpoint.

Our full year outlook reflects our strong continued momentum and expectations of 2026 MSI wafer start growth to be in the high single digit to low double digit range, increasing from previous expectations.

Building on our strong year-to-date results, we're raising our full-year outlook:

- Net Sales is now expected to be between $5.77B to $5.83B
- Adjusted operating EBITDA is now expected to be between $1.785B to $1.805B, and
- Adjusted EPS is now expected to be between $4.95 to $5.05.
- And finally, adjusted free cash flow is now expected to be between $800M to $900M.

Based on our guidance, for the fourth quarter, we're expecting another strong quarter of year-over-year performance with approximately 26% Net Sales growth at the midpoint.

In the Semi and ICS segments for 2026, we expect the strong year-over-year growth momentum to continue at approximately 15% and 30%, respectively, at the midpoint of our guidance. Our guidance also takes into account normal seasonality and customer inventory management at year-end.

At the midpoint of our updated guidance for the full year, we now expect to deliver 22% Net Sales growth, over 28% adjusted EBITDA growth, and adjusted EPS growth of approximately 50%.

Jon, I'll turn it back to you.

Jon Kemp, CEO

Thank you, Ken. Our first year as an independent company has shown our ability to translate strategy into measurable results that strengthen our ability to deliver durable, profitable growth.

- We've bolstered our end-to-end portfolio with a broad range of innovations and new product launches, reinforcing our position as an industry technology leader;
- We've invested in targeted capacity expansions in attractive, high-growth areas like CMP solutions, lithography, and thermal management, aligned with customer roadmaps, and supported by POR wins and disciplined return expectations;
- And…we've deepened customer and ecosystem partnerships with industry leaders, engaging earlier than ever in the innovation cycle, creating sustainable pathways to grow future content and share.

More recently, our inclusion in the Philadelphia Semiconductor Index places us among important peer groups, reflecting our critical role across the semiconductor value chain.

Together, these milestones demonstrate clear growth principles:

- invest where we have differentiated technology and visible customer demand,
- partner closely with customers to earn critical design selections,
- and scale efficiently as those programs move into production.

As we look forward to 2027, my conversations with customers reinforce confidence in the strength of demand and the momentum ahead. We expect the acceleration we've seen in 2026 to continue as AI, advanced nodes and system integration expand the challenges our materials can solve. We're still early in this evolution, with meaningful runway as customers bring next-generation chips and systems into high-volume production. Thank you to our customers for their trust and collaboration, and to our people who continue to execute with focus and discipline to capture the opportunities ahead.

Operator, you can open the line for questions.

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