Qnity Earnings

Second Quarter 2026 Earnings Transcript

Meg Miller, Vice President, Global Communications

Thank you and welcome to our second quarter 2026 earnings call. I'm joined by Jon Kemp, Qnity's Chief Executive Officer and Mike Goss, Qnity's Interim Chief Financial Officer. 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.

And now, it's my pleasure to turn it over to Jon.

Jon Kemp, Chief Executive Officer

Thank you for joining our call this morning.

Last quarter, we talked about how the fundamental shift from "shrink" to "stack" is becoming the driving force behind technological advancement in the semiconductor industry. Innovation is spanning well beyond transistor shrink to focus on connecting chips in new and innovative ways that will unlock the next frontier of computing. As the stack gets taller and layers multiply, the journey every chip must take lengthens and materials innovation becomes the hidden hero, quietly powering performance, yield, and reliability.

Qnity sits at the center of this trend with one of the broadest portfolios of end-to-end solutions across the stack. On the front-end, our suite of CMP pads, cleans, and slurries, and lithography materials are essential for patterning and polishing leading-edge chips. In the middle, we provide comprehensive advanced packaging solutions from both business segments to enable next-generation architectures and support chip-to-chip connections. Finally, on the back end, our thermal materials move heat across demanding full-system workloads like data centers and other AI applications.

When you combine the breadth of our portfolio across the semiconductor stack, with decades of innovation alongside our customers and a local-for-local model for manufacturing and technical support, it's clear why Qnity is uniquely positioned for the

opportunities ahead. We're aligned with the industry's most ground-breaking technology roadmaps, embedded in our customers' next-generation platforms, and able to deliver the materials and solutions they need at scale. As AI, high-performance computing and advanced connectivity continue to reshape the industry, these advantages position us to create significant long-term value.

Financial Results Review

The best proof of this differentiated position is our performance. Looking at our second quarter results, we delivered our ninth consecutive quarter of strong, profitable organic growth.

Organic sales increased 22% year-over-year with another quarter of double-digit growth across both segments. Adjusted operating EBITDA increased 24% and Adjusted EPS grew by 53% as we continue to demonstrate our ability to drive strong operating leverage in the business.

In Semiconductor Technologies, we grew organic sales 17% year-over-year led by AI-driven solutions as our advanced nodes portfolio grew more than 20% during the second quarter.

We've seen broad-based improvement in fab utilization across the industry. Advanced logic is now tracking to the mid-80% range, while mainstream logic is in the low-80s. In memory, we continue to see healthy utilization levels, with DRAM in the high 80s and NAND in the low 80s.

As customers move to increasingly advanced nodes, every wafer requires more layers, more processing complexity, and more packaging steps. All of this translates to more volume and more Qnity content. We're seeing that with continued growth at 3-nanometer, emerging activity at 2-nanometer, and increasing engagement around future Angstrom-era technology platforms. And that combination of improving utilization and rising content intensity continues to support our confidence in the long-term growth outlook for our Semi business.

In Interconnect Solutions, our team continues to deliver exceptional results, with 28% organic growth year-over-year again led by content and share gains across our key growth platforms of advanced packaging and interconnects, AI PCBs, and thermal management. Collectively, these platforms again grew more than 50% year-over-year during the second quarter.

One of the biggest engineering challenges in next-generation AI systems isn't simply building smaller and faster chips – it's enabling those chips to reliably communicate with

one another. As architectures become more complex, challenges around signal integrity, power delivery, and heat dissipation become increasingly difficult to solve. As we partner with customers to overcome these increasingly complex system-level challenges, we're seeing demand broaden across our portfolio and additional opportunities to increase content throughout the AI ecosystem moving forward. This combination of strong platform growth, expanding content opportunities, and deepening customer engagement reinforces our confidence in the durable long-term growth outlook for our ICS business.

Innovation Strategy and Portfolio

As the technology for both shrink and stack accelerates, we advanced our own innovation progress during the quarter, extending our leading technology position from front to back through both new products and broader industry engagements.

At the front-end, we announced an expansion of our CMP offerings with the launch of Optivision™ Max polishing pads. Our newest commercial soft polishing pad delivers superior performance in critical CMP steps to enhance surface quality, process stability, and reliability for advanced architectures and nodes. We're already seeing adoption across both leading-edge nodes and advanced packaging applications, including emerging AI and HBM-driven architectures. At the same time, we continue to gain traction in next-generation logic securing multiple POR wins at 16 and 14 during the first half of the year as we advanced toward angstrom-level nodes.

Beyond Semi fab materials, in AI PCBs, we are winning new business in Pulse Plating, a key metallization technology for the most advanced, high-layer count PCBs used in AI applications. For customers, Pulse Plating helps deliver the precise, reliable interconnects required to support higher-density designs, stronger signal integrity, and more dependable power delivery in next-generation AI systems.

Shifting to back-end assembly materials, thermal management is becoming a critical performance enabler as AI systems push higher power densities across chips, packages, boards, and data_-center infrastructure. We've further strengthened our broad thermal portfolio in the first half of the year, which now spans liquid thermal interface materials, phase-change materials, thermal pads, gap fillers, and other advanced solutions that help customers move heat more efficiently, improve reliability, and accelerate deployment of next-generation AI systems.

These latest materials offerings demonstrate how we're innovating against the industry's most complex technical challenges. Just as importantly, we're backing that innovation with the targeted capital investments required to scale alongside our customers. Over the past

several years, we've executed a disciplined, sustained investment in capacity — deployed in step with our customers' technology roadmaps.

Since 2022, we've deployed approximately $600 million in growth investments across the business, with a focus on expanding capacity and enabling the next generation of technologies aligned to our local-for-local operating model. Combined with our innovation efforts, these investments position Qnity to support the accelerating demand we continue to see from our customers. It also strengthens our ability to capture long-term growth opportunities across our end markets.

Pulling this all together, our innovation isn't happening in isolation. We're pairing technology leadership with disciplined capital investment to expand the capabilities, capacity, and customer proximity required to support the industry's most important roadmaps. That combination is translating into stronger customer engagement today and positioning Qnity to capture the long-term growth we see ahead.

Industry and End Markets Overview

Before I turn it over to Mike, I want to touch on the end-market trends that we're seeing.

As customers allocate capacity to the highest-value applications, our portfolio mix continues to evolve. Over the past six months, we've seen end-market composition shift driven by the rapid growth in data centers, steady growth in automotive and other industrial markets, and slower growth in consumer electronics. With that said, our consumer electronics portfolio continues to prove resilient with positive growth given our outsized exposure to premium devices and continued content gains.

Increasingly, we see AI moving from the cloud into the physical world of devices, vehicles, and machines. If the cloud is where AI learned to think, the physical world is where AI will learn to do. This presents another exciting long-term growth opportunity for Qnity where we are well positioned across the industry through our existing relationships with both OEMs and the broader fab and foundry landscape.

While these chips are often less complex than data_-center-class processors, the market needs dramatically higher quantities of them, produced efficiently and reliably. The physical world demands chips that deliver targeted AI inside strict thermal, power, and size envelopes. This means a fundamental re-architecture of how AI gets built, deployed, and scaled and progress will depend in large part on materials innovation to make it happen. And that plays directly to Qnity's advantages.

Let me now hand it over to Mike to step through our financial results and guidance in more detail.

Mike Goss, Interim Chief Financial Officer

Thanks, Jon. And good morning, everyone. We sustained our strong momentum in the second quarter, performing better than our expectations across both segments. We delivered net sales of $1.4 billion, up 22% year-over-year and 9% sequentially. On an organic basis, sales were up 22% versus the same period last year.

Adjusted operating EBITDA for the quarter was $431 million, up 24% year-over-year. Adjusted operating EBITDA margin was 30.2% reflecting our resiliency while continuing to invest for growth. Adjusted EPS for the quarter increased 53% to $1.19.

Segment Review

Taking a closer look at each of our business segments, Semiconductor Technologies net sales were $744 million, up approximately 3% sequentially. Organic sales grew 17% year-over-year driven by continued demand strength, especially for advanced logic and HBM chips.

Semi gross margins were steady at approximately 49% and adjusted operating EBITDA margin was approximately 34%, both down a bit year-over-year and sequentially in line with our expectations driven by product mix in the quarter and continued investments to support advanced node growth.

Interconnect Solutions delivered another exceptional quarter, with net sales of $685 million, up more than 30% year-over-year and 16% sequentially. Organic sales grew 28%, led by our AI and data_-center platforms: advanced packaging, AI PCBs, and thermal management.

ICS gross margins were approximately 44% and adjusted operating EBITDA margin was approximately 29%, an improvement of 290 basis points year-over-year and roughly flat sequentially. This was driven by sustained operating leverage on higher volumes and favorable mix.

Financial Profile and Capital Allocation Review

We generated adjusted free cash flow of $259 million, reflecting strong operating performance and continued execution against our cash priorities. This performance reinforces the confidence reflected in the higher guidance that we are providing today.

Capital expenditures totaled $90 million in the quarter and remain on pace with our planned investments to support capacity expansion, transformation initiatives, and future

growth. We continue to anticipate elevated CapEx investment for the full year driven by these initiatives. Over the longer term, we expect CapEx to return to the 6% of net sales range.

We also continue to deliver strong capital returns for shareholders through our quarterly dividend, and during the quarter we repurchased $25 million worth of shares to partially offset normal equity dilution. We're well positioned from a liquidity perspective with approximately $960 million in cash and short-term investments at the end of the second quarter.

Total debt outstanding is $4 billion with a net debt leverage of approximately 2.0x. Immediately after quarter end, we successfully repriced our Senior Secured Term Loan facility to further enhance our free cash flow profile, resulting in an annualized benefit of approximately $6 million.

Transformation Program Overview

Looking forward, we are a few months into our multi-year transformation plan and are beginning to see tangible benefits from our efforts, with productivity and throughput improvements**,** creating additional operating flexibility and supporting growth. Let me share just a couple of examples of our program in action:

In our Kalrez business, which has seen strong growth in the first half of the year due to accelerated demand for wafer fab equipment, we're executing targeted productivity, capacity release, and automation initiatives. These actions position the business to better convert strong market demand into growth.

Additionally, to advance our local for local model, we continue to optimize our distribution footprint through targeted warehouse consolidations that simplify our network, improve service levels, and reduce operating complexity. These actions are expected to deliver approximately 10% logistics cost savings while improving warehouse efficiency and operating leverage over time.

We also continue to make meaningful progress towards IT independence. We are on track to migrate about two-thirds of our sites to our own systems by the end of this year. Each site migration reduces our reliance on transition services and gives us more direct control to run our business.

Overall, we're pleased with the steady progress on the transformation plan and are confident it will unlock operating flexibility, and build the stronger, more agile operating model required to support Qnity's next phase of growth.

2026 Guidance

Before I hand it back to Jon for closing comments, let me walk you through our updated guidance. For the third quarter, we expect sequential Net Sales growth in the LSD range. The strength is broad-based across the same secular drivers we highlighted earlier in the year, namely AI-driven applications, high-performance computing, and advanced connectivity, along with a muted seasonal peak in consumer electronics that typically characterizes our third quarter.

As a reminder, the third quarter of 2025 included approximately $40 million of Net Sales that was accelerated into the third quarter ahead of our pre-spin IT systems go-lives — roughly $25 million in Semiconductor Technologies and $15 million in ICS. This created an elevated prior-year comparison base that does not recur in 2026, modestly tempering the year-over-year growth in the third quarter for both segments, even as underlying demand continues to remain strong.

In Semiconductor Technologies, we expect sequential Net Sales growth in the LSD range, with an Adjusted EBITDA margin profile in the mid-30s.

For ICS, we expect sequential Net Sales growth in the MSD range, with Adjusted EBITDA margins in the high 20s.

Overall, we're watching industry supply chain dynamics closely, including memory and other materials, and working with customers to meet their needs. The modest upward pressure we flagged earlier in the year of approximately $20 million — is largely playing out as we expected, and the mitigation playbook we put in place, coupled with our local for local model, is doing its job. Where isolated input or logistics costs have moved higher, our targeted pricing actions are in place, and we see no near-term risk to supply or output.

With our strong first half momentum and improved visibility into the second half, we're raising our full-year outlook:

- Net Sales is now expected to be $5.55B to $5.65B.
- Adjusted operating EBITDA is now expected to be $1.675B to $1.725B.
- Adjusted EPS is now expected to be $4.40 to $4.60.
- And finally, adjusted free cash flow is now expected to be $600M to $700M.

At the midpoint of our updated guidance, we now expect to deliver 18% Net Sales growth, over 20% adjusted EBITDA growth, and adjusted EPS growth of 35%% for the full year. Lastly, we'll continue investing with the strong customer ramps we're seeing while maintaining the cost discipline that supports our results.

Jon, back to you.

Jon Kemp, CEO

Thanks, Mike.

Before we open the call to Q&A, I want to provide updates on two critical leadership roles.

First, I want to officially welcome Kate Dei Cas (Dee-Cass), who started yesterday as President of our Semiconductor Technologies business segment. Kate brings more than 25 years of experience in the semiconductor industry and a proven record of driving growth, managing global supply chains, and delivering operational excellence. We're thrilled to welcome her to Qnity! I also want to recognize Sam Ponzo for his leadership through this transition as he returns to his role as Qnity's Chief Commercial & Strategy Officer.

Second, on our search for a new Chief Financial Officer, we've been really pleased with the strong candidates we've seen and are in the final stages of our search. I look forward to sharing an update soon.

To close out our remarks, I want to briefly recap the highlights from our call: Qnity delivered another strong quarter, with broad-based growth across both segments and continued momentum across the secular drivers reshaping our industry.

We are benefiting from the powerful combination of both shrink and stack, where more process complexity and more layers are increasing materials intensity across the semiconductor value chain. Our portfolio breadth, customer intimacy, and disciplined investment strategy position us well to capture these opportunities and deliver durable long-term growth.

As we look ahead, we remain focused on disciplined execution, enhancing value for customers, and delivering long-term growth for our shareholders.

With that, operator, we can now open the call to Q&A.

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