Brush Engineered Materials Inc. Reports Second Quarter Results In Line With Previously Announced Expectations

CLEVELAND, Ohio — July 26, 2001 — Brush Engineered Materials Inc. (NYSE – BW) today reported second quarter sales of $128.5 million, down 6% from 2000 second quarter sales of $137.2 million and 13% lower than the first quarter 2001 sales. The second quarter 2001 sales represent the first quarter-to-quarter sales decline in two years. Second quarter sales were adversely affected by weakness in the telecommunications and computer markets, the Company’s two largest markets comprising approximately 50 percent of total sales. Sales for the first half were $274.0 million, up slightly from sales of $272.6 million in the first half of 2000. Foreign exchange rates negatively impacted sales for the second quarter and first half of 2001 as compared to the same periods in 2000 by $1.6 million and $3.3 million respectively.

Net income for the second quarter 2001 was $1.3 million or $0.08 per share diluted versus $3.9 million or $0.24 per share diluted for the same period last year. Net income for the first half was $7.5 million or $0.45 per share diluted, up 23% compared to $6.1 million or $0.38 per share diluted for the first half of 2000. Gross margin as a percent of sales decreased from 21.7% in the second quarter of 2000 to 18.4% in the second quarter of 2001 due to lower sales volume and unfavorable currency effect offset partially by favorable pricing. Gross margin as a percent of sales for the first half of 2001 versus 2000 was about flat. Selling, general and administrative (SG&A) expenses as a percent of sales was 14.6% in the second quarter 2001 versus 15.4% for the second quarter 2000. SG&A expense as a percent of sales for the first half of 2001 of 14.7% improved by 1.1% over 2000. The improvement in SG&A as a percent of sales for the quarter and year to date is driven largely by cost reduction actions and lower legal, medical and environmental health and safety expenses.

Business Segment Reporting

The second quarter and first half 2001 operating profit results for each segment include certain corporate and share service allocated expense and other costs and expenses due to the reorganization of the Company’s corporate and capital structure approved by shareholders on May 2, 2000 and completed on January 1, 2001. Financial results for each segment have been adjusted for the same periods in 2000 to reflect these changes.

Metal Systems Group

The Metal Systems Group consists of Alloy Products, Technical Materials, Inc. (TMI) and Beryllium Products.

The Metal Systems Group’s second quarter sales were $83.4 million, down 12% from 2000 second quarter sales of $95.1 million. Year-to-date sales were $182.0 million versus $186.3 million for the first half of 2000.

Second quarter operating profit/(loss) for the Metal Systems Group was ($1.6 million) versus $2.7 million for the same period last year. Year-to-date operating profit was $4.9 million, more than double last year’s first half operating profit of $2.2 million.

Alloy Products’ second quarter sales of $63.0 million were down 6% from the second quarter of 2000 and were 15% below first quarter 2001 sales. The first six months sales were flat as compared to the first half of 2000. Alloy strip sales, which comprises a third of total sales of the Company and approximately two-thirds of Alloy Product sales, experienced significant order cancellations and a drop off in demand from the telecommunications and computer markets during the second quarter. As the demand slowed in the second quarter, production was adjusted throughout the strip supply chain to manage inventory and control cost. It is anticipated that this softness in demand will continue at least through the third quarter of 2001. In addition, a more extensive plant maintenance shutdown will be taken during the third quarter. Alloy bulk product sales increased 2% in the second quarter 2001 over second quarter 2000 while year-to-date sales increased by 7% over the same period last year. Alloy bulk products is beginning to experience some softness in the undersea telecommunications market while the plastic tooling and welding markets have been soft for most of the year.

TMI’s second quarter sales of $12.6 million and first half sales of $33.1 million were down 45% and 21% respectively from the same periods last year. This significant decline is due to weak demand in the telecommunication and computer/datacom markets. TMI has taken cost reduction actions commensurate with the sales decline and is operating at a profit.

Beryllium Products’ second quarter sales of $7.8 million were up 47% and first half sales of $14.7 million were up 39% over the
same periods last year. This sales growth has been driven primarily by increased demand for aerospace and defense product applications.

**Microelectronics Group**

The Microelectronics Group includes Williams Advanced Materials Inc. (WAM), and Electronic Products. (Electronic Products includes Zentrix Technologies Inc. and Brush Ceramic Products Inc.)

The Microelectronics Group’s sales were $42.3 million for the second quarter and $89.2 million year-to-date, which represents an increase of 1% and 7% respectively over the same period last year. Operating profit was $0.9 million for the second quarter versus $2.7 million for the second quarter of 2000 and $3.3 million for the first six months versus $4.8 million for the same period last year.

WAM’s second quarter sales of $32.7 million increased 5% over the second quarter 2000 and year-to-date sales of $68.0 million grew 8% over the same period last year. The sales growth was fueled by strong demand from the wireless/photonic microelectronics markets. During the second quarter, WAM acquired certain assets used in the production of frame lid assemblies from a competitor who has withdrawn from this market. It is anticipated that this added capacity will increase WAM’s future sales of frame lid assemblies. WAM is experiencing overall record growth and expects demand to be strong through the remainder of 2001.

Electronic Products’ second quarter sales of $9.6 million were down 9% from the second quarter of 2000. Sales of $21.2 million for the first half were up 4% over the same period last year. Electronic Products experienced softness from the wireless telecommunications market during the second quarter of 2001. This softness was partially offset by demand for thick film circuit products.

**Outlook**

The significant decline in the telecommunications and computer markets continues to affect the performance of Alloy Products, Technical Materials Inc. and the Electronic Products businesses. In addition, some of the Company’s customers are in the process of taking extended operational maintenance shutdowns due to the slowdown in these markets. Brush Engineered Materials expects that third quarter sales will be 5% less than second quarter sales. Actions continue to be taken to mitigate the impact of the lower sales on earnings. The actions include manufacturing cost reductions, capital expenditure deferrals and a reduction in overhead spending. Therefore, third quarter earnings are expected to be similar to the second quarter. However, there is a potential for a downside in the quarter depending on future order rates.

**Chairman’s Comments**

Commenting on the results, Gordon D. Harnett, Chairman, and Chief Executive Officer, said, “Although we are disappointed by this continued economic weakness and the impact it is having on our business, the steps we are taking to mitigate this short-term situation will also help deliver sustainable bottom line benefits in the future as the economy and our markets do rebound. Given the performance leverage we saw in the first quarter of 2001, I am convinced that we are well positioned to take advantage of an economic upturn, which many now expect to occur in 2002 rather than 2001.”

**Forward-looking Statements**

Any forward-looking statements in this announcement, including those in the Outlook Section, are based on current expectations. The Company’s performance may differ materially from that contemplated by the forward-looking statements as a result of a variety of factors, including the global and domestic economy, fluctuations in customer demand, manufacturing yields and operating performances at the Company’s various facilities, changes in product mix, financial condition of customers, the timely and successful completion of pending capital expansions, tax rates, exchange rates, energy costs and other matters referred to in the Company’s Securities and Exchange Commission filings.

Brush Engineered Materials Inc. is headquartered in Cleveland, Ohio. The Company, through its wholly-owned subsidiaries, supplies worldwide markets with Beryllium Products, Alloy Products, Electronic Products, Precious Metal Products, and Engineered Material Systems.