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MTX - Q4 2016 Minerals Technologies Inc Earnings Call

EVENT DATE/TIME: FEBRUARY 03, 2017 / 4:00PM GMT

THOMSON REUTERS

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PRESENTATION

Operator

Good day ladies and gentlemen, welcome to the Q4 2016 Minerals Technologies earnings conference call. Today's call is being recorded. At this time I'd like to turn the conference over to Mr. Rick Honey, Vice President of Investor Relations.

Rick Honey - *Minerals Technologies Inc - VP of IR*

Good morning. Welcome to our fourth-quarter 2016 earnings conference call. For this call, Chief Executive Officer Doug Dietrich will review our 2016 performance, address the fourth-quarter results, and provide some perspective on the coming year.

Before we begin, I'll remind you that beginning on page 13 of our 2015 10-K, we list the various risk factors and conditions that may affect our future results. Statements related to future performance by members of our management are subject to these limitations, cautionary remarks, and conditions. Now I'll turn the call over to Doug.

Doug Dietrich - *Minerals Technologies Inc - CEO*

Thanks, Rick. Good morning everyone.

Let's start off with a brief review of our financial performance highlights for 2016. 2016 was a successful, yet extremely challenging year for Minerals Technologies. It marked the seventh consecutive year we posted record earnings, and two of the major contributors to that performance were our specialty minerals and performance materials segments, both of which also had record years. We increased earnings to $4.47 per share, and Company-wide operating margins increased to 15.7%, up nearly 10% from last year.

We improved our safety performance this year, reducing our recordable and lost time incidents by 22%. As most of you know, China is a major focus of our geographic expansion growth strategy. In 2016 our efforts there gained ground with revenue growth of 9%. We made progress with the penetration of PCC into the paper market, with the penetration of our blended green sand bond systems into the foundry market. Sales in the Paper PCC business in China grew 12%, including a startup of our 100,000-ton filler satellite with Sun Paper. Our performance materials segment recorded an 11% sales growth.

We also strengthened our technology pipeline. New technologies are maturing, and we've moved closer to commercializing new products across each of our businesses, all of which will yield future growth.

We remain a strong operating company entering the year continued to improve our manufacturing processes through our initiatives in operational excellence and lean. In 2016 for example, the Company improved productivity, measured by tons per hour work, by 7%. This saves close to $5 million in cost compared to 2015, and it marks the seventh year in a row we had productivity improvements of 5% or higher.

We also continued our progress with deploying operational excellence. The number of suggestions received from our employees increased by 14%, and we held over 4,000 Kaizens, which means that more than 10 structured problem-solving events are occurring each day throughout the Company.

Again this year, we had strong cash generation, continued to strengthen the balance sheet, and reduced our debt by another $190 million to bring our net leverage ratio to 2.5 times EBITDA. We also had our challenges this year. The continued downturn in the oil and gas markets resulted in nearly $100 million in lower sales for our energy services segment, on top of the more than $100 million decline we experienced the year before.

We moved quickly however, to restructure that business to maintain an acceptable level of profitability and reposition it globally around it's competitively differentiated offshore filtration and well testing services. The business is now well-positioned for revenue and profit growth as markets improve.

Weak worldwide steel markets, which created continued pressure on our refractories segment, was another challenge. Despite this market environment, the business unit turned in a strong performance, increasing operating profits despite lower sales. In total, our services businesses' sales decline by $120 million from last year. Our ability to absorb this impact and continue to grow earnings is a significant accomplishment.

Now I will take you through the details of our full-year and fourth-quarter performance, and I'm going to conclude with what we see for 2017, and I will give you some perspectives on MTI going forward. Starting off the full year, we increased earnings per share to $4.47. Operating income was flat at $257 million, despite the decline in revenue I just mentioned that we experienced in energy services and refractories.

Four of our five business units posted strong annual performance, improving operating income over last year. Energy services was the exception, however it was able to maintain positive operating income despite the market-driven sales decline. We achieved this result through a strong operating performance across the Company, lower raw material costs and reduced overhead expenses. As a result, operating margins increased to 15.7% -- 10% higher than last year.

This slide shows our annual earnings over the past 10 years. We have grown earnings, except for the recession in 2009, each year over this period. This represents more than 12% compound annual growth rate.

As I mentioned earlier, our minerals-related businesses continue to perform well with each of the segments recording double digits operating margins and improving profits over last year. Both the specialty minerals and performance materials segments had record years, and in construction technologies sales of our Resistex product line grew threefold over 2015.

Combined, these three segments accounted for nearly 80% of total Company sales and 85% of our operating income for 2016. We continue to improve operating income and margin in each of these businesses. This year, combined operating margin was 17.5%. EBITDA margin was over 23%.

This slide provides the performance of our service related businesses, refractories and energy services. As I mentioned, these two businesses had a challenging year. Combined sales for these two segments declined $120 million, but we were able to hold operating income relatively stable and improve operating margin. This is a result of the timely and difficult actions taken by the energy services business to restructure in order to maintain a reasonable level of profitability, as well as strong performance in the refractories segment to maintain focus, control costs, and improved operating income under difficult market conditions.

Now I'll turn to the fourth quarter performance and I will provide a more detailed review of the Company and each segment. Fourth quarter was a solid quarter for us with earnings per share of a $1.08 excluding special items, compared to the $1.00 last year. Reported earnings this quarter were $1.04 per share. Total sales for the quarter of $401 million, down $29 million, with about $20 million of this decline due to five fewer days in the quarter compared to last year, the remainder from the unfavorable impact of foreign exchange.

We saw strong sales growth in the performance materials segment, however this growth was offset by decreases in energy services, due to the exit of several service lines in mid-2016, and in Paper PCC, due to several previously announced paper mill closures in the US that were operational at this time last year. Our growth in China continues to gain traction, as Company sales there grew 10% over the fourth quarter of last year.

Our operating income grew 2% over last year, despite the five fewer days in the quarter. Operating margins were strong at 15% of sales, compared with 13.7% last year, as we continue to realize productivity improvements and supply chain savings across the Company.

On the same day basis, operating income increased 8% over last year due to strong growth in performance materials and refractories, which more than offset a weak fourth quarter in specialty minerals. We continued to generate strong operating cash flow -- $61 million for the quarter -- and used it primarily to repay $50 million in debt.

Now let's go through each segment, and I will start with specialty minerals. As I mentioned earlier, this segment had a record year, despite having a weak fourth quarter. Sales this quarter were $138 million, and decreased 8% on a same-day and constant currency basis from last year. Paper PCC sales were down 9% due primarily to the paper machine closures early in the year, and some extended paper mill outages in the quarter. If you recall, these paper mills were fully operational in the fourth quarter of 2015.

Performance minerals' fourth quarter is typically the slowest period of the year. However, it was particularly so this quarter, as customers shifted orders during the last two weeks of December. We also faced temporary shutdowns at two of our own manufacturing plants in Montana due to freezing temperatures, and California from heavy rain that occurred there in December. The combination of these events lowered sales by 12% over last year, which was more than we expected on the last call.

Operating income for the quarter was $21.6 million, and operating margins were relatively strong at 15.7%. Impact of the lower sales was partially offset by improved productivity, lower energy and raw material costs, as well as good expense control. On an annual basis, specialty minerals' operating income was a record at $103 million, and we've continue to improve operating margin in this segment.

Moving to our outlook for the segment on the first quarter, we expect operating income to be higher than the fourth quarter by $1 million to $2 million. In Paper PCC, we expect some volume improvement in each region. And in performance minerals, we're currently seeing a stronger order book, however adverse weather conditions at our western plants have continued into January, and this could impact the segment's results.

Now let me take you through the performance materials segment. Sales this quarter were $136 million, 6% percent higher than last year on a constant currency basis and 11% higher than last year on a same-day basis. On the same comparative basis, sales in metal casting increased 7%, due to a 22% increase in sales in Asia.

The household and personal care product line sales were lower by 8%, due to the changeover of a surfactant granule by one of our customers that we indicated would happen on the last call. Basic minerals accounted for the majority of the segment's revenue increase, with sales up 60% or $11.5 million on a same-day basis from last year. This increase was primarily the result of higher bulk sales of chromite out of South Africa.

Operating income for the segment was a quarterly record at $26.7 million and represented 19.7% of sales. The increase in operating margins was due to higher chromite sales, productivity improvements of over 10%, and lower claimed mining costs. We also achieved a record annual income in this segment and you can see the significant improvement in operating margin over the past several years.

Moving on to the first quarter, we expect segment operating income to be approximately $2 million lower than the record fourth quarter level, primarily due to lower chromite sales, but also to mining productivity challenges we're having at our western mines, due to the heavy rains there.

Now take a look at the results in the construction technology segment. Sales for this segment were approximately $39 million, 5% higher on a same-day and constant currency basis. Both environmental and building material product lines had strong sales in the US, which were partially offset by weaker demand this quarter in Europe. Operating income was $2.7 million and represented approximately 7% of sales as profitability was affected by an unfavorable product mix, where sales of Resistex were lower this quarter compared to last year.

Our annual operating margins continue to improve in this business as well, which is a result of productivity improvements, overhead cost control, and shifting the product mix to higher value products like Resistex, which generated $11.6 million of sales in 2016, compared with $3.3 million in 2015. Looking to the first quarter, we expect operating income to increase slightly from fourth quarter levels, though the first quarter is also a seasonally slow period for this business.

Now let's go through the energy services segment. Sales and energy services were $20.3 million, $13 million lower than last year. The sales decrease was primarily due to the shutdown of our US onshore service lines, including nitrogen, pipeline and land-based well testing. We achieved our second consecutive quarter of improved profitability in this segment since restructuring it in the second quarter of 2016, and hit our near-term target of 10% operating margin.

As you can see on the chart on the right-hand side, weak oil and gas demand has significantly reduced sales and profits in the segment, yet we been able to remain profitable despite a decline in sales of more than $200 million over the past two years. Energy services is now focused on global offshore filtration and well testing, where we have a competitive advantage from our differentiated technologies.

We're seeing more activity and greater stability in the Gulf of Mexico and around the world, and our new produced water technologies are beginning to gain traction with oil and gas producers. We're now well-positioned to grow sales and profits as energy markets recover. As we move into the first quarter, we expect operating income to be around the same level as the fourth quarter. We're beginning to see increased activity in the Gulf of Mexico for well test services, however pricing remains competitive in all regions.

Now let's go through refractories. This business had a solid quarter, hosting very strong operating margins. Sales and operating income were better than we expected during our third-quarter call, due to stronger steel market conditions and we were also able to secure several laser equipment sales. Compared to the prior-year, sales were higher by 5% on a same-day and constant currency basis.

Operating income improved 85% to $9.8 million from $5.3 million last year. This was driven by the higher equipment sales, improved refractory sales from our operations in Turkey, and an 11% productivity improvement in lower overhead costs. As you can see from the charts on the right-hand side, the segment had a solid year despite weak market conditions. Sales were down $20 million from 2015, but we were able to increase operating income by 17% and improve operating margins to 12.8% for the full year.

Looking to the first quarter, we expect operating income to be about $2 million lower than the fourth quarter. Steel markets continue to be stable, however we will not see the same level of equipment sales as we did in the fourth quarter. Now let me give you a quick update on our progress with debt repayment.

This chart shows our debt principal payments and associated net leverage ratio for the past 10 quarters. Over this period we've made a total of $480 million in debt principal payments and have reduced our net leverage ratio to 2.5 times EBITDA. We expect to continue to use free cash flow to repay debt, which will bring us closer to two times net leverage by the end of 2017.

As I mentioned on the outset of the call, 2016 was both a successful and challenging year. With our seventh consecutive year of record earnings, we achieved record income levels in our two largest segments -- specialty minerals and performance materials, we continued our sales and operating income growth in China. Full-year earnings of $4.47 per share represents close to 85% earnings growth over the last three years, which is a significant result considering the challenges we faced along the way in our services business.

Let me first give you what we see for the first quarter and then I will conclude with some perspectives on what I see for MTI in the new year. In specialty minerals, we expect operating income to be higher than the fourth quarter by $1 million to $2 million. Performance materials, we expect segment operating income to be approximately $2 million lower than the fourth quarter. In construction technologies, we expect operating income to increase slightly from fourth quarter levels, though the first quarter is still a seasonably slow period.

For refractories, we expect the first quarter to be $2 million lower than the fourth quarter, due to lower equipment sales. In energy services we expect similar levels of operating income to the fourth quarter. In total, we expect our earnings for the first quarter to be between $1.00 and $1.05 per share.

One other thing I would like to remind everyone is that our operating cash flow in the first quarter is typically lower than other quarters, due to some cash outflows that occur only in the period. However, 2017 in total we see another strong cash flow year. I would like to take the few remaining moments to provide insight on what we see for the coming year.

Overall, I see another strong year for MTI. In performance materials we will keep pursuing opportunities in metal casting, household and personal care, and basic minerals around the world. We expect to see further penetration of metal casting's green sand bond formulations in Asia, especially China, as foundries move up the value curve and seek ways to save money through productivity improvements. We've also seen in the past two years growth in pet litter sales, both through geographic expansion and through our new lightweight litter product, and we expect that growth to continue this year.

In 2016 we aggressively began our China government marketing initiative to ensure that MTI's technologies can be specified for adoption by government agencies. Part of that initiative resulted in the Company being chosen as one of six companies or institutions that were part of the 8Th Annual US-China Strategic and Economic Dialogue. Eco-partnership was specifically for our new yield process technology that converts a paper mill waste stream into a usable pigment.

Other technologies that have matured over the last year will begin marketing in China include; geosynthetic clay liners, environmental solutions to such problems as coal ash and red mud containment, and our Enersol crop enhancement products. We're also excited about our efforts in China with Sun Paper and with our new yield technology in encoding grade PCC for the high-end packaging market -- a market that continues to grow.

In Paper PCC the potential exists in China and India to nearly double our PCC production through new satellite plants and paper mills, and we've seen increased interest from paper makers that are trialing our PCC, our fulfill high filler technology, as well as evaluating new yield. We also expect performance minerals to have another strong year, as will construction technologies as it continues to grow the Resistex product line.

The outlook today for our two services businesses has improved from where we sat at the beginning of 2016. We have, for example, seen steel capacity utilization's creep up from the mid-60% range at this point last year, to around 73% today. And oil prices are now over $50 per barrel, where last January they were closer to $30 per barrel. These two markets are more stable today and these two businesses are now well-positioned to grow if these markets improve.

As always, we will continue our disciplined approach to productivity and cost control and continue to improve our operational excellence capability throughout the organization in 2017. MTI will continue to generate strong cash flows and we will use it to further reduce our debt and strengthen the balance sheet, which we will use in a balanced approach to capital allocation. At the same time we have a robust set of acquisition opportunities and value added minerals that are well placed in our current end market segments, geographies, and our mineral and technology portfolios.

With the growth initiatives that we have in place and the continued development of new technologies, I see Mineral Technologies well positioned for growth in 2017. I would like to conclude today by offering some perspectives on how we will operate MTI going forward -- continue to enhance shareholder value and answer some questions that many of you have asked about what, if anything, I will do differently.

Here is what I can provide you. I intend to maintain and nurture MTI's culture, which has its foundation in safety, strong employee engagement, transparency in our actions and accountability for results. The Company has worked hard over the last 10 years to develop a highly disciplined and structured business system founded on principles of operational excellence that provides each business leader with the resources they need to drive profitable growth.

MTI is a high-performing Company with efficient processes, and I intend to maintain this. However, with any system, no matter how good it is, there are always areas that can be improved, which is exactly what our operational excellence culture is designed for -- continuous improvement. That too, will remain. We will also keep tight control on costs, capital and continued focus on improving return on capital. We will also keep and continue to execute our key growth strategies of geographic expansion, new product development, and acquisitions.

So where can you expect to see change? The first area is to improve our speed in execution on our growth opportunities. I want to take what we do so well with operating the Company in an efficient aligned and disciplined approach, and apply those same principles to improve revenue growth.

To do this, I believe we need to better align our organizational structure within the MTI business system to speed up communications, make faster decisions, knock down barriers and better align our resources to focus on the needs of our customers. We need to have the right talent in the right spots to provide the necessary focus on growth and build even stronger customer relationships. One area in which I will focus early on, is accelerating the development of our organization in Asia, particularly China, to add depth and breadth to our team in the region to better support the growth opportunity we have.

Second, I will begin the longer-term process of developing and enhancing the talent we have in our organization. By that, I mean we will move people into new, challenging positions and add to our talent base where needed, yet within our expense control culture. MTI is a unique Company and has a strong operating culture. Fostering talented people who understand it and grow up in it will provide the type of leadership we need to carry the Company into the future.

To those points, I recently made two changes to bolster our management team. I brought on Matt Garth from Arconic to become the CFO, and seeing that he has just joined us two days ago, I'm sparing him the trial by fire today until he gets up to speed. But you will be hearing from him in future calls and meeting him at conferences. Networked with both me and Joe Muscari in the past, and is very familiar with our style of operating culture.

I also named Brett Argirakis, who runs the refractory segment, to our executive committee. Brett, who has 29 years with the Company is one of those who has grown up in and understands our culture. You'll be seeing additional changes in the months ahead, all designed to enable us to go faster.

Although not a change, but important as to where I will be spending my time, is our continued focus on acquisitions as an avenue of growth. Our capability to assess, transact, and integrate acquisitions is as strong as ever, and we have a healthy pipeline of opportunities to pursue.

I believe that all these efforts will enhance the growth trajectory of the Company by creating clear customer focus, ensuring that we have the necessary resources, not only to take advantage of the growth opportunities we have available to us today, but also further build a foundation to carry the Company for the next 10 years.

Now let's go to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Daniel Moore, CJS Securities.

Daniel Moore - *CJS Securities - Analyst*

Good morning, Doug, thanks for taking the question.

Doug Dietrich - *Minerals Technologies Inc - CEO*

Hi, Dan.

Daniel Moore - *CJS Securities - Analyst*

First, I just want to take a look on the PCC side, given the closures in North America, hit a new low in Q4? Do you expect that to be the bottom? Have you seen any additional capacity come out, other than what we talked about a couple of months ago? I guess just more generally, if you look back at some of the closures -- is the return profile, do you feel confident in the return profile, on these projects is sustained as we had always expected historically?

Doug Dietrich - *Minerals Technologies Inc - CEO*

You mean the return profiles on the new satellites?

Daniel Moore - *CJS Securities - Analyst*

Correct.

Doug Dietrich - *Minerals Technologies Inc - CEO*

Let me answer your first question. Right now, we don't see any additional closures in North America and Europe. We always look at operating rates for uncoated free sheet paper. Right now, I think they're around 90% in both Europe and North America, and that's a pretty healthy level. So when we look at that level, we don't see any, and we don't see any this year coming at us.

As far as returns on those new satellites, you look at how we price those and look at those capital expenditures with our customers, and those returns are the same over the horizon that we have those contracts, as anything that we've had in North America. And I will caution you a little bit that the revenue is different.

So part of the revenue decline that you're seeing in paper -- I will try to give you some more clarity on this -- is a ton of PCC in China is a different price than a ton of PCC in North America. The reason that is, because the import costs are different, but the returns are the same to the Company in how we price that cap.

Daniel Moore - *CJS Securities - Analyst*

Got it. Very helpful. And then switching gear, the long-term trend in household-personal care continues to be very good. Q4 was a little light, anything that caused that and your expectations for 2017, and one quick follow-up?

Doug Dietrich - *Minerals Technologies Inc - CEO*

Let me answer the first part, and I'll ask Gary to give you a little color. Household and personal care, the decline you saw this quarter, it has been on a very good growth track. The decline this quarter, as I indicated on the last call, what happened is a changeover of a surfactant granule from one of our customers. So as they do that, that volume dropped off and we expect to pick it back up in probably the second, end of the second quarter of 2017. So we're back on the track of growth.

I'll let Gary give you a little bit more color on that.

Gary Castagna - *Minerals Technologies Inc - SVP & Managing Director, Performance Materials*

Right, Dan, the prospects on the future, like Doug said, we had a particular product line that we knew coming in to the last part of 2016 was going to be phased down, and that happens often in these formulations. There's changeovers to alternatives.

And then we do have programs that are always in the pipeline looking certainly for adding to the growth and we will see coming up to this year, more growth potential coming down the road. Probably more towards the second half the year that will take up for some of the decrease you saw here in the last quarter.

Daniel Moore - *CJS Securities - Analyst*

Perfect. And lastly, I know you don't like to get into the full-year guidance game, but just thinking about puts and takes this past year, despite $120 million revenue drop in the services business, you still managed 4% EPS growth?

Given the growth outlook that you described in the prepared remarks, is there any reason why you shouldn't grow at a higher clip this year on the bottom line? Are there any investments or tax rates, or other things that we should be thinking about that could be a governor? Thank you. Appreciate it.

Doug Dietrich - *Minerals Technologies Inc - CEO*

Look, I think there's absolutely additional growth in earnings in 2017. You know, I'm made a little cautious about the contribution from the services businesses. I think we feel much better, as I mentioned today, as we sit today looking into 2017 for both Refractories and energy services, we were facing some pretty significant slowdowns and declines last year. But where those businesses hit this year and what those markets are this year, much healthier position.

I'm cautiously optimistic. I don't think until we see oil prices, if we want to talk specifically about energy services, to really see something over $60 per barrel. I don't really think that is driving some meaningful production and filtration business, but we are seeing some better activity today so that's a positive.

Refractories business is at 73% capacity utilization. That's up almost 7% from where we sat last year. That's another healthy indication. And maybe while do first, and then I will conclude, Dan, is I will let Andy give you a little bit of color -- Andy Jones -- give you a little color on what we're seeing here around the world in oil and gas, and then Brett Argirakis on refractories and steel.

Andy Jones - *Minerals Technologies Inc - VP & Managing Director, Energy Services*

Yes, Dan, its Andy here. I think we kind of bottomed out at the beginning of Q4 last year, and I think that we're at the beginning of an upcycle now. We are seeing stabilization of the rig count here in the US offshore. We're seeing an uptake in the rig counts on land, and internationally our business is growing quite well, I would say.

I think we predicated our plan on $45 to $55 oil. We're around the high side of that today, around $54. As Doug said, once we get to $60 and we can sustain $60, then we'll see much more infrastructure spend, I would say, in the EMP environment. So I think we're at the beginning of the uptick and I think we're looking forward to a good year.

Doug Dietrich - *Minerals Technologies Inc - CEO*

Want to give us a little color on refractories?

Brett Argirakis - *Minerals Technologies Inc - VP & Managing Director, Minteq International*

Sure. Hi, Dan. The global steel production in 2016 was fairly flat, and the utilization rates were around 70%. As Doug pointed out, our expectations are to be better this year. So, US rates, when you look at US rates, as he pointed out, we went early in the year from 70%, we're up to about 73%, and we're seeing orders picking up for the steelmakers over Q4.

So that's a positive indication. Expectations for us, for 2017, we expect them to remain at similar levels for the time being, but also expect a possible uptick in the second half, so that should help us in our growth initiatives.

Doug Dietrich - *Minerals Technologies Inc - CEO*

Dan, let me complete the picture for you. Look at the minerals businesses, we just had 22% growth in metalcasting. We've got some really strong orders in China for metalcasting. So we see that continuing. We are going to continue to ramp up Sun Paper filler satellite in the beginning of this year, which will improve some PCC volumes.

You know we tripled our Resistex sales this year, and we look at that growth continuing especially as we start to introduce some of those products into Asia. So I think there's a lot of good things going for the Company to start generating some revenue growth, and I think that will yield higher earnings in 2017.

Daniel Moore - *CJS Securities - Analyst*

Great. Appreciate the color as always.

Doug Dietrich - *Minerals Technologies Inc - CEO*

Thanks.

Operator

Silke Kueck, JPMorgan.

Silke Kueck - *JPMorgan - Analyst*

Good morning. How are you?

Doug Dietrich - *Minerals Technologies Inc - CEO*

Hi, Silke.

Silke Kueck - *JPMorgan - Analyst*

I was wondering whether you could quantify how big your business in China is now as a percentage of sales? And if you were to grow it, does that require any additional capital outlays, or hiring [at a rate of] SG&A expenses -- maybe you can comment on that?

Doug Dietrich - *Minerals Technologies Inc - CEO*

Sure. The sales in China is about 15% of the Company sales right now. It's growing at about a 10% pace on an annualized basis. So it's becoming a relatively sizable portion of the Company. When I talk about developing the organization there, that will require some overhead expense and SG&A, but the way we look at things in the Company is, we manage our total overhead expenses to the Company's growth rate.

So we will be moving and shifting -- we always have been doing this as we shift resources from areas that may not be growing to those that are. So we will manage that expense control -- or manage that expense outlay. But it will require some broadening of talents to better support that growth and accelerate it, even in China.

Capital will require capital -- we are the two main areas of capital expenditures for growth will be in the performance materials and the Paper PCC business, as it always has been. No real capital needed, very small capital needed for construction technologies. We've got plenty of capacity around the world and in China right now. So, it will be more for new technologies in the Paper PCC business, and in performance materials.

Silke Kueck - *JPMorgan - Analyst*

Thank you.

Doug Dietrich - *Minerals Technologies Inc - CEO*

You don't sound very good, Silke.

Silke Kueck - *JPMorgan - Analyst*

No, I'm on the upswing, so I'm able to ask questions again, which is good. Do you have a cost savings target for 2017?

Doug Dietrich - *Minerals Technologies Inc - CEO*

A cost savings target for 2017. Well we do have targets, we set them internally. We set, actually, pretty tall stretch targets for Doug Mayger's team, who runs our supply chain group. This year we probably had about $10 million to $13 million of across-the-board supply chain savings.

The way we planned the Company, Silke, is when we plan our business units and operating income, we do one thing very standard. We put, we build into our forecast a 10% per year productivity improvement. And a 3% variable cost improvement in each of our businesses. That's the target.

Expense savings, we look at it based on the business and where it's growing, and what it needs, but on an operating basis, we target those levels every year. Now what that has yielded is about a 3% variable cost savings, and a 5% productivity improvement on average every year for the past six years. So those are targets, and they're kind of standard. But we do have some supply chain targets as well.

This year will be a little bit more challenging with energy costs flattening out. We participated in some energy savings last year. But we do have those targets as well.

Silke Kueck - *JPMorgan - Analyst*

In terms of G&A and CapEx, how much G&A did you spend -- what was your G&A expenditures in 2016? And what you expect for 2017? And similar for CapEx, I think for 2016 you spent $80 million to $90 million, you ended up spending $62 million? What do you think you might spend in 2017?

Doug Dietrich - *Minerals Technologies Inc - CEO*

G&A, Silke, was $92 million in 2016. CapEx, you're right, it was only $62 million this year. We expect that to probably be around $70 million to $75 million next year. Really is dictated on -- it's really driven by Paper PCC. We built -- we finished building one satellite plant this year and so that will be, the increase will be, if we start to build satellites, but that probably won't be until late if at all next year.

Silke Kueck - *JPMorgan - Analyst*

Two more questions if I may. In terms of your operating cash flow, was there a working capital headwind in the fourth quarter versus last year net of your operating cash flow? It's lower than it was last year in the fourth quarter, even though the net income was somewhat comparable? Actually, better.

Doug Dietrich - *Minerals Technologies Inc - CEO*

We had actually -- we did and we mentioned on the last call. We had some working capital as a challenge for this year. Especially in the first part of the year. We had a number of payment terms extended on us, particularly in energy services and steel, as those large customers kind of inflicted some changes on us, but that drove up our working capital.

You know we took some actions toward the second half of the year, though some of that those receivables were extended. We tried to offset that with payables and work through some inventory reductions. We did make some progress in the fourth quarter, some good progress on inventories. And improved our outstanding collections, but it was something with more of a draw this year than last.

Silke Kueck - *JPMorgan - Analyst*

What is the working capital change expectation for next year?

Doug Dietrich - *Minerals Technologies Inc - CEO*

Working capital -- I can give it to you on a day's basis. We typically run around 90, 97, 92 days, so we're looking to get ourselves back to where we were. I don't have the exact numbers, I think in 2014 we were around 92 days. I think we're up about six days in total working capital as a Company.

Silke Kueck - *JPMorgan - Analyst*

And lastly, there was a fair amount of currency headwind that you absorbed this year, and probably even a little bit [currently] in 2016, probably even at the end of 2015, and all of that probably took away from what your [activity] savings would have looked like if you didn't have the currency headwinds? How much leverage do you expect if currencies begin to flatten out?

Doug Dietrich - *Minerals Technologies Inc - CEO*

What I can give you is, from over the past two years, our sales -- foreign exchange has impacted our sales negatively by $135 million. It's impacted negatively operating income by about $18 million to $20 million. So as we stay here, I'm not making any predictions on where currency is going, but if you go back to 2014, that is the kind of leverage you are looking for.

Silke Kueck - *JPMorgan - Analyst*

Thank you very much. I'll get back in the queue.

Doug Dietrich - *Minerals Technologies Inc - CEO*

Yep.

Operator

Rosemarie Morbelli, Gabelli.

Rosemarie Morbelli - *Gabelli & Co. - Analyst*

Thank you. Good morning everyone. Congratulations, and thank you for this very good dissertation on what you are planning to do.

Doug Dietrich - *Minerals Technologies Inc - CEO*

Thanks, Rosemary.

Rosemarie Morbelli - *Gabelli & Co. - Analyst*

I was wondering, you mentioned new products? As one which has always been one way for mineral technology to grow, and you said that a few of them were becoming, were getting close to commercialization? Could you give us a better feel as to where those products are, what they are going, and what kind of revenues you anticipate three years out?

Doug Dietrich - *Minerals Technologies Inc - CEO*

Let me answer the last question first and then I'll give you some color. New products constitute -- new products that we've launched over the past five years -- constitute about 12% of the Company's sales today. We've got, of those there's probably about 83, 85 new products, and they have the potential -- the growth potential of about a little over $300 million, a little over $300 million, $325 million in total sales. Of things that we've launched that are still developing.

What I mentioned in terms of development of new technologies, they are in areas in the Paper PCC business. We've developed -- we've launched our New Yield product last year. New Yield, that was the first facility with Sun Paper, and so we've worked through that technology at that location, and have made it more robust over the past year, so that has matured. As well as commercialized, it has matured.

Our geosynthetic clay liners like Resistex have also matured. We've deployed them through a number of red mud containment ponds, as well as coal ash. And we've refined that product even further over the past couple of years and it has become more robust. So let me let Rand Mendez give you a little feel for some of the technologies in paper that he's seen trial activity on, on and those that have been maturing.

Rand Mendez - *Minerals Technologies Inc - SVP & Managing Director, Paper PCC*

That's right, Doug. Well, as you know we have a good technical capability for coating of high-end packaging. But beyond that, beyond producing glossy coating with our PCC product, we have other technologies with Fulfill and New Yield, that we're pursuing into packaging. Fulfill and New

Yield can provide strength, light weighting, fiber displacement, all of these properties are important in the packaging market and we some good active opportunities there. In fact these opportunities are not just in China, they're currently active in all regions.

Further out, we have some new technologies in addition to Fulfill and New Yield, that we've not announced yet, but they are advancing in Asia and in fact, the rest of the world as well. So, beyond PCC several good developments there.

Doug Dietrich - *Minerals Technologies Inc - CEO*

Some other technologies in the performance materials, Rosemary, things like Enersol, and our lightweight litter, and I'll let Gary give you a little color on those.

Gary Castagna - *Minerals Technologies Inc - SVP & Managing Director, Performance Materials*

Hello Rosemary -- on lightweight litter, I know you've asked about that before, that's been a product that we commercialized really just over the last year here in the US. And it's been pretty successful in terms of the traction in the overall market. The space -- within the space in the cat litter category, the lightweight litter now is about 12% to 15% of the retail dollars. It's held steady at that level.

Our customers are principally large mass merchandising retailers, they're getting a private label product on the shelves as we speak, and we're seeing pretty good development of those markets as we go along. So, we're still on the small end, in terms of what the value is but the rate of growth looks quite promising.

But beyond the US, we're really looking at that lightweight litter technology that we have and the capabilities we have to move quickly into China and other parts of Asia to introduce that product. The whole idea of domestication of pets in that category is rapidly changing in that emerging market area, and we would like to jump fast into this type of product into that region. We think it makes a lot of sense. So we're pushing very heavily and I'd like to think that we will be introducing a product in China by the end of this year.

In terms of the Enersol area, which again is our crop health additive, we have distribution now well-established in key geographies, principally Brazil, China, India, and of course here in North America. Some areas of that are influenced by crop prices, like we are seeing today. However, on a number of different smaller crop areas, fruits, vegetables principally, we've seen very good trial data and beginning to get more each year into broadening our distribution in the key geographies. Once the key money crops begin to recover, we see a quite substantial growth potential beyond that base that we have today.

Rosemarie Morbelli - *Gabelli & Co. - Analyst*

What are they replacing? Are they replacing fertilizer? I'm not an ag person.

Doug Dietrich - *Minerals Technologies Inc - CEO*

It is not a replacement it's an enhancement, and in some cases, many cases now, what we're really doing is called formulating our particular additive with the micro nutrients that are used in soil additives. So we're sort of compatible, if you will, with existing macro and micro nutrients.

Rosemarie Morbelli - *Gabelli & Co. - Analyst*

Okay. That is helpful. Thanks. And what do you mean, Doug, by those products are matured? They were just introduced in 2016. I'm not sure I understand what you mean?

Doug Dietrich - *Minerals Technologies Inc - CEO*

What I guess I'm referring to is our technology pipeline. So, two things. One, we operate our technology development in a stage-gate process. So every year, we have a number of -- and we will probably show this to you in the next couple of calls, but I will highlight the new technologies that are coming in.

The ones that are moving through, and the ones -- the ones that we've developed that have matured another year that are becoming ready for commercialization. So with any new product, and they evolve as they're out on the market. When we enhance them, and we make them even more effective, once we see how they've worked with a number of different customers.

I think those that are in the pipeline have matured another year and will be commercializing this year. And those that are already commercial, that have been enhanced and changed and developed for a broader customer base. That is kind of what I mean by matured.

Rosemarie Morbelli - *Gabelli & Co. - Analyst*

Okay. So just means that they are in the market space and they are now beginning to generate revenues?

Doug Dietrich - *Minerals Technologies Inc - CEO*

Both, in and about to be in the marketplace.

Rosemarie Morbelli - *Gabelli & Co. - Analyst*

Okay.

Doug Dietrich - *Minerals Technologies Inc - CEO*

The other thing I will let you know, I mentioned some of the produced water technologies that are taking hold in the energy services. We've got the new laser systems and other refractory formulations as well in refractories. So there are a number of fronts where we see new products contributing to growth in 2017. Part of my dissertation, as you put it.

Rosemarie Morbelli - *Gabelli & Co. - Analyst*

I can find a better word. I apologize.

Doug Dietrich - *Minerals Technologies Inc - CEO*

It felt like it, I guess. Some of the changes, the organizational changes that I intend to make are getting a little bit closer to those customers and making sure we have the points with those customers. Because really understanding how these things are working and quickly making decisions, and quickly enhancing them.

So just speeding up that communication with these new products are some of the things that I think can help us go faster, and that's what I referred to in terms of organization changes that I think will help the growth trajectory.

Rosemarie Morbelli - *Gabelli & Co. - Analyst*

Okay, yes. Thank you. That is very helpful and just lastly if I may, on the chromite -- does it have a substantially higher margins than your other product lines? Looking at the results with the higher sales of chromite?

Doug Dietrich - *Minerals Technologies Inc - CEO*

They are good margins, Rosemary, and its really driven by the market price of chromite. So, we have a general fixed mining cost, so that we're price takers in the market of chromite. I will give you an idea -- chromite prices at the beginning of last year were around $100 per ton and they've climbed almost $340 a ton late this year, so very quick climb, and that's what we're participating in.

Rosemarie Morbelli - *Gabelli & Co. - Analyst*

And what is a reason for that climb?

Doug Dietrich - *Minerals Technologies Inc - CEO*

It is really driven by demand in China, so over the past two or three years, stocks, market has changed a little bit. Maybe I'll let Gary give you an indication of what changed three years ago, but it was driven by consumption in China right now.

Gary Castagna - *Minerals Technologies Inc - SVP & Managing Director, Performance Materials*

Yes, Rosemarie, the situation that this chromite is used ultimately to produce stainless steel. So a lot of more consumer, as well as some industrial area. So that demand has continued to be fairly strong in China, particularly.

China must purchase all of the raw materials that go into ultimately into producing these goods. So, the chromite the comes from South Africa -- where our mine is -- is approximately 70% of that supply going into the country. And essentially what's happened over time is there has been a rebalancing of the grades of the chromite going into the country and that rebalancing is more favored -- the type of mineral that we have at our disposal.

So we're definitely riding that wave, that wave goes up, it definitely can come down. But at this time and for certainly a foreseeable future, we see a fairly positive outlook, but it is a volatile, it can be a volatile end market.

Rosemarie Morbelli - *Gabelli & Co. - Analyst*

Okay. Thank you very much. I appreciate it.

Operator

(Operator Instructions)

Mike Sison, KeyBanc.

THOMSON REUTERS

Mike Sison - *KeyBanc Capital Markets - Analyst*

Hi, guys. Doug, appreciate your opening comments there, in terms of what you plan to do. You did mention that EPS growth over time has been pretty good, 12%. When you think about a three to five-year goal for Minerals Technologies, what type of growth do you think you can generate there, on EPS or top line? Or maybe some metrics on a three to five-year plan? And I apologize, I know you are just starting there.

Doug Dietrich - *Minerals Technologies Inc - CEO*

Appreciate that, Mike. Look, we usually don't guide out even a year, so I'm going to hesitate to give you numbers out three to five years. I do think though, that the Company has the potential, at least the minerals segment of the Company, has the potential to grow the top line, with traction. Again it may not be linear, but has the opportunity to grow 5% or 6% range.

The challenges we've had over the past couple of years in terms of our top line have really been two things. The services businesses, energy services and refractories, I mentioned over the past two years about $230 million of sales decline due to foreign exchange. But I think that growth, as it is now stabilized and will turn the other direction, I think what those growth trajectories in the top line are possible over the next five years.

I think that will yield even higher levels of earnings growth on the bottom line. And that's because we -- our ability to turn a dollar of revenue into very strong profits, I think is evident. So I think over a longer period of time, that 10%-type earnings growth, albeit, it may not be linear, on a comparable basis of the next 5 to 10 years is possible.

Mike Sison - *KeyBanc Capital Markets - Analyst*

Okay. Great. For Paper PCC, you talked about trial activity? Can you walk us through sort of the timing there, and how that works into potentially adding more satellite capacity over time?

Doug Dietrich - *Minerals Technologies Inc - CEO*

The trial activity is actually quite a long sale process. It requires, what it requires most is time on the machine. And when you are trialing -- so first, understanding the needs of the customer, understanding the pigment they're using, the paper grades they are producing, understanding how PCC can help them in terms of enhancement of quality in paper and saving cost in terms of pulp.

I can give you a quick equation -- PCC is a direct one-for-one replacement for pulp. Pulp, if you're making it, averaged $350 cash cost and we sell PCC for $120. If you're buying pulp, you're probably paying $800 a ton and we're selling it to you for $120 per ton, so there's a big cost advantage.

Not so easy, you have to make sure the paper works. It works within the chemical systems and on that machine, and that's the trial activity. So first, its understanding the value equation for the customer, describing that value equation and then getting time on the machine. It's been difficult to get time on the machines in China and Asia the past year, due to some of the dynamics have been changing over there in terms of paper and supply, with Indonesia. With a lot of paper that has come back from the US into Asia, it's circled his way through India, Indonesia and China and that made it difficult to get time on those machines.

Once you get time on the machine, and that may be scheduled out a number of months, it may take a month, a three week trial, and then some feedback, and it may take another trial. But once -- and we've seen this over the past 25 years -- it's almost always shown that PCC is a higher value pigment, saving money. And then it gets into, what type of capital required to put a satellite on that location. And then how we negotiate a 10 to 15 year commitment by both parties, and that's not something taken lightly by either side.

Getting together and putting a satellite on-site of a plant and being there, I think the average lifespan of our satellites right now are almost 20 years. When we're doing these things, we are there for long periods of time, as partners with that customer. That cycle takes time, that can take a year in some instances, and that's what's happening right now.

Mike Sison - *KeyBanc Capital Markets - Analyst*

And last question, Doug. When you think about acquisitions that you're focused on, you've got, all four segments have very good profitability. Energy services used to, and maybe as energy bounces back that will as well, but when you think about what makes most sense to add to the growth of your Company, any particular areas of focus near-term?

Doug Dietrich - *Minerals Technologies Inc - CEO*

I think, certainly, in the minerals-based businesses, we all focus acquisitions. Our template has been -- mineral-based, but minerals that have a technology component, or something that we can apply mineral technologies to. To make them value-added constituents in whatever they go into.

I think, you know with a bentonite-based set of businesses, it provides us avenues in that mineral. But also in the markets that are in metalcasting, consumer-products, household personal care, those markets and that mineral provides an area and platforms for those growth.

Same with the carbonite side. In our specialty minerals segment, we have opportunities for growing in the specialty segment and also in further development of those minerals around the world. So, we have both market-type platforms that we can move into, and also mineral-type platforms.

It doesn't necessarily have to be bentonite or carbonite that we look at, but something that is also parallel in a market that we currently serve, maybe in another mineral. And that's what we looked at when we bought AMCOL with bentonite. I think I gave you a two-dimensional kind of pallet for where we can explore, but primarily it will be in the minerals businesses.

Mike Sison - *KeyBanc Capital Markets - Analyst*

Great. Thank you very much.

Operator

Daniel Moore, CJS Securities

Daniel Moore - *CJS Securities - Analyst*

Thank you, Doug. Your comments, the last comments just sparked a thought. As you talk about what you will keep and what is different -- in terms of M&A strategy, bolstering reserves has been a key goal. In the past, everything you've done has been materially accretive in a very short period of time. How do you think about balancing near-term earnings accretion with the opportunity to bolster reserves over a longer period of time going forward?

Doug Dietrich - *Minerals Technologies Inc - CEO*

Well, absolutely I think making sure we have the reserves around the world to support the growth in the regions that we're growing and our current base business. Sometimes I don't think about it an acquisition, but as necessary ongoing capital to sustain the business long-term. But that may come through acquisition in terms of buying a position that comes with those reserves.

What I think of is, I balance, obviously the shareholder value creation of the acquisition. So it really depends on what it is. We tend to look for being accretive right out of the gate. If something wasn't or if it was neutral, it would have something in there that generated significant, relatively near-term cash flow improvements for us to want to buy it.

Were pretty disciplined about how we look at acquisitions and how we value them. We value them from many different angles and you've probably seen historically we've been pretty disciplined about how we go about that.

Daniel Moore - *CJS Securities - Analyst*

Indeed, appreciate it. Thank you.

Operator

And with no additional questions I would like to turn the floor back over to our speakers for any additional or closing remarks.

Rick Honey - *Minerals Technologies Inc - VP of IR*

That concludes today's conference call, and thank you for your interest in Minerals Technologies, and have a nice day.

Operator

Thank you. And again ladies and gentlemen, that does conclude today's conference. Thank you all again for your participation.
