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PRESENTATION

Operator

Good day, and welcome to the Third Quarter 2017 Minerals Technologies Earnings Call. (Operator Instructions)

At this time, I'd like to turn the call over to Cindi Buckwalter, Vice President of Investor Relations and Corporate Communications for Minerals Technologies. Please go ahead, Ms. Buckwalter.

Cindi Buckwalter - *Minerals Technologies Inc. - VP of Investor Relations and Corporate Communications*

Thank you, Chad. Good morning, everyone, and welcome to our third quarter 2017 earnings conference call. Again, I'm Cindi Buckwalter. I recently joined MTI, and I'm thrilled to be part of the company and working with this great team. While I've already met some of you, I look forward to meeting everyone and working with all of you.

On today's call, our Chief Executive Officer, Doug Dietrich, will provide an overview of our results, key drivers and strategies; and our Chief Financial Officer, Matt Garth, will follow with a more detailed review of MTI's financial performance.

I would like to remind you that beginning on Page 13 of our 2016 10-K, we list the various risk factors and conditions that may affect our future results. And I'll also point out the safe harbor disclaimer on Slide 2 here. Statements related to future performance by members of our team are subject to these limitations, cautionary remarks and conditions.

Now I'll turn the call over to Doug. Doug?

Douglas T. Dietrich - *Minerals Technologies Inc. - CEO and Director*

Thanks, Cindi. Good morning, everyone. I'll start off today by covering some of the highlights from the third quarter, and then I'll give you an overview of the operating performance of our Minerals and Service businesses. Then I'll turn it over to Matt Garth for a more detailed review of our results.

Before I begin, I wanted to highlight that Minerals Technologies celebrated its 25th anniversary on October 23. It's a notable milestone for the Company, and one we took a moment to celebrate. It was a good time to look back at our achievements over a quarter of a century, and reflect on those who helped build the company and contributed to where we are today. We have a tremendous employee base here at MTI who are committed to the Company's success. This commitment, along with our strong set of values, is the core of how we've come this far, and what will continue to drive our success for the next 25 years.

Let's move on to our results. Another solid quarter for MTI with earnings per share of $1.19. Total sales increased 6% with both our Minerals and Service businesses each up 6%. Operating income rose to $68 million, and operating margin remained strong at 16%. We expected operating income to be a bit stronger; however, we faced several onetime costs in the quarter that we'll outline for you during the call.

Our Minerals businesses performed well with the majority of the product lines growing over last year. Asia continues to be a strong growth region for us with overall sales there up 16%, driven by both Paper PCC and Metalcasting.

A recent highlight is the announcement earlier this week that we signed a new contract for an 80,000-ton satellite with Asia Pulp and Paper in Indonesia.

Our Service businesses also had a very strong performance with sales increasing 6% and operating margins of more than 13%.

From an efficiency standpoint, we improved productivity by 5% over last year as we remain highly focused on removing waste from our processes. In a few minutes, I'll show you some statistics from our operational excellence activities, which should give you a feel for how the Company's OE culture has deepened over the past several years and contributed to our strong financial performance.

Cash flow was higher this quarter at $73 million. We repaid $30 million of debt, and are approaching our target net leverage ratio of around 2x EBITDA. And at the end of September, our Board authorized a new 2-year $150 million share repurchase program.

Here's the chart of our sequential earnings for the past several years. Earnings per share of $1.19 this quarter increased 2% over last year.

Let's review our two mineral segments: Performance Materials and Specialty Minerals. We saw stronger sales this quarter across the majority of these product lines. In Performance Materials, metalcasting sales increased 17% over last year, driven by 5% growth in North America and 34% growth in China, where we're seeing further penetration of the Chinese foundry market as we demonstrate the value of our premixed blended bond systems for customers. This is the fifth consecutive quarter of year-over-year growth for metalcasting in China.

The market penetration strategy is also taking hold in India, the second largest foundry market globally, where sales have increased nearly 40% from last year, albeit from a smaller base.

Our lightweight cat litter formulation that we launched earlier this year in China continues to gain traction in the marketplace. We've introduced new pet litter formulations, as well as new packaging types to both new and existing customers. Our year-to-date growth in China's pet care products is over 75%, and we expect continued growth over the next several years for pet care in China and throughout Asia. In the U.S., our private label lightweight litter is also continuing to gain momentum with our large retail partners. Overall for Pet Care, demand is healthy for both our packaged and bulk products, and we expect this to continue into 2018.

In Fabric Care, late in the second quarter, we successfully scaled up a key additive at our U.K. fabric care manufacturing facility. This additive is part of a new product platform for a large, multinational detergent company. The customer is rolling out the additive in Latin America, Europe, Middle East, Africa and Asia over a period of time, and we expect to see demand continue to increase into next year.

Moving to Building Materials, we saw revenue increase 18% this quarter as we were well-positioned with a large construction project on the West Coast.

Basic Mineral sales grew by 40% due to higher sales of chromite and a 29% increase in our drilling products for both oil and gas and non-oil and gas applications.

In Specialty Minerals, Paper PCC volumes were similar to last year. North America volumes were lower, offset by volume growth in Asia. Our pipeline of new opportunities around the world for our PCC technologies remains strong, and we're driving movement in that pipeline.

We announced this week a new 80,000-ton per solar satellite with APP in Indonesia at their Pindo Deli Mill in Karawang. This project, along with the one announced earlier this year at their Perawang Mill, to build a new 125,000-ton satellite, and expand our existing plant by an additional 40,000 tons, will add 245,000 tons of PCC capacity by the end of 2018. That's a 5% increase in our global installed capacity, and will contribute to additional PCC volume growth next year and into 2019.

We also saw growth in our Specialty PCC and Ground Calcium Carbonate product lines, and we're working on 2 production capacity expansions to keep pace with growing customer demand for our new products.

Moving on to our Service businesses, Refractories and Energy services. This was a solid quarter for these two businesses as well. Sales increased 6%, and operating income rose 11%. Operating margin strengthened to over 13%.

Sales grew in our refractories segment this quarter, primarily driven by higher equipment sales, and our laser measurement systems in particular have been very strong this year. We're also making good progress with the deployment of a new, high durability refractory product portfolio, which is gaining broader market acceptance and demonstrating that it can deliver significant value to our steel-making customers.

In Energy Services, sales declined year over year, but it increased sequentially with new well testing and filtration projects initiated in the Gulf of Mexico. I expected stronger results in Energy Services this quarter, however, the hurricane that impacted the Gulf region resulted in lower revenue due to delayed projects and increased costs to ensure that our people and assets were secure during the storm. Our employees remain safe, however, our Houston office was closed for approximately 10 days due to flooding in the region. Matt will cover the impact of this in his remarks.

But before I hand things over to Matt, I wanted to take a moment to share with you some of my perspective on the fundamental health and strength of MTI. MTI's a much different company than it was 25 years ago. We faced a number of different challenges over the years, and have adapted to overcome each one. We've installed a structured business system, rooted in full P&L accountability in our businesses, supported by a strong culture with a focus on safety and efficient corporate organization and a highly efficient global shared services engine.

We've maintained our number one market positions in our legacy businesses, and over the past 10 years, we've developed or acquired leading positions in several more. We've also created strong positions in several geographic and product end markets that will provide significant long-term growth avenues for the Company. We have extensive, high-quality mineral reserves that will continue to expand globally, and we've built a strong new product and technology pipeline.

As I've discussed on prior calls, I've spent a great deal of time this year aligning the organization with our vision and growth strategy, and focusing everyone on activities to accelerate sales growth. I've also streamlined our business structures to leverage manufacturing synergies. I've invested in growth with more local leadership and our global businesses to increase focus on our customers and to speed decision making. While I've noted that these changes will have longer term impact, we're starting to see some sales momentum today that will carry into 2018.

But underlying all these changes is an engaged employee base, rooted in operational excellence. The heart of MTI is our continuous improvement culture, which drives our ability to constantly refine processes, whatever they may be, to maintain our competitive cost advantage and support our growth strategies of geographic expansion and innovation and to integrate acquisitions quickly.

Let me show you what I mean by engagement. You can see from the two charts in the middle of this slide the number of Kaizen events, which are structured problem-solving forums, are up nearly 50% this year on an annualized basis, and the number of suggestions from our employees have increased over 15%. These statistics represent the commitment of our employees every day to continuously improve what we do.

Our OE activities have demonstrable results. We highlighted last quarter the impact lean tools have had on the advancement of our new product development pipeline, but another area is how we've improved manufacturing performance. For example, so far this year, we've improved productivity by approximately 6%, and as the chart on this slide illustrates, we demonstrated a 6% average productivity increase each year since 2012. This gets to the heart of our ability to maintain or improve our cost competitiveness.

Many of you ask us, when do the benefits of these process improvements come to an end? When do you eliminate all the waste? The answer to that question is that it never ends. There are always new processes being added, existing processes that can be improved, and old ones that need to be retired.

Operational excellence and lean practices are part of the daily work of our entire employee base, and they are key to achieving and maintaining solid business performance. Over the past several years, these activities have been a key factor in the growth of our operating and EBITDA margins, the increase of our return on capital, and has led to a strong balance sheet. Not only does OE contribute to a strong business result, equally as important, it creates a work environment that is marked by high levels of personal achievement, satisfaction and engagement.

In summary, the fundamentals of the Company are solid as we move into our 26th year. We have growth opportunities across much of our portfolio, including continued geographic sales growth, new product and technology innovations, and potential acquisitions. Supported by a strong balance sheet, I believe that we are well-positioned to take advantage of these opportunities to further drive shareholder value.

Now let's turn it over to Matt for a more detailed review of the quarter. Matt?

Matthew E. Garth - *Minerals Technologies Inc. - CFO and SVP of Finance & Treasury*

Thanks, Doug, and hello, everyone. I'll review our third quarter results, the performance of our 4 segments, and also provide you with our outlook for the fourth quarter.

We delivered solid financial results in the quarter with earnings per share of $1.19, which was 2% higher than the third quarter of last year. Our reported earnings were $1.17 per share. In the third quarter, we achieved overall revenue growth of 6%, with strong performances across many product lines. Metalcasting increased 17%, Basic Minerals was up 40%, and Building Materials increased 18%. Household and Personal Care, and specialty products were up 1%, and Paper PCC also increased 1%.

As highlighted in the operating income bridge, our Performance Materials and Refractories businesses grew income on a year-over-year basis. Our Specialty Minerals and Energy Services segments decreased. In total, operating income grew 1% to $67.7 million.

We experienced a negative impact in the quarter related to the hurricane in the Gulf of Mexico. This affected revenue and cost in several areas of our business. The primary impact was in Energy Services, as many offshore rigs demobilized and delayed project work. We also experienced transportation cost increases and delays due to logistics disruptions in our minerals businesses.

Operating margin was good at 16%, which was lower than last year due to higher sales of lower margin bulk chromite, lower sales of higher margin environmental products and talc, and the onetime storm-related costs I just mentioned. We generated strong cash flow in the quarter of $73 million, paid down $30 million in debt, and reduced our net leverage ratio to 2.3x.

Let's now review our segments beginning with our largest segment, Performance Materials. Revenue in Performance Materials increased 12% compared to last year. Metalcasting was up 17%, driven by higher blended bond system sales to foundries across all regions, with China up 34% and North America up 5%. Basic Minerals increased 40% due to higher drilling product demand for onshore oil and gas drilling in the Permian Basin, and to higher chromite as well. Building Materials sales grew 18%, primarily due to a large waterproofing project on the West Coast of the U.S.

These sales increases were partially offset by lower Environmental Products revenue due to fewer large remediation and effluent segregation projects in the U.S. and Brazil compared to last year. However, we have a strong pipeline of projects across multiple geographies and using new technologies, and we see them poised to deliver higher revenue and profit in 2018.

Operating income was $30.6 million, and operating margins were 16.2%. The operating margin was lower than last year due to the higher bulk chromite and the fewer high-margin Resistex projects that I just mentioned.

In addition, as we ramp up production of our fabric care product in the U.K., we are experiencing higher costs related to the startup. We are presently running at approximately 15% of capacity for this product, and we expect to realize cost efficiencies as we achieve full capacity in the first half of 2018.

Looking to the fourth quarter, we expect continued strong performance in North America Metalcasting and continued growth in Asia. However, we are entering a seasonally low period for Environmental Products and Building Materials when we typically see lower sales and profits. Overall, we expect operating income to be lower by $2 million to $3 million for this segment sequentially.

Now let's turn to our Specialty Minerals segment. Specialty Minerals sales were up slightly versus last year. We saw higher revenue in PCC and GCC and lower revenue in talc. The growth in Paper PCC was driven by 5% growth in Asia as we continue to see higher volumes in the region, particularly in New Yield, coated products, and at our India operations. We also saw higher Paper PCC sales in both Europe and Brazil. This, however, was largely offset by a 4% decline in North America due to lower sales in coated paper.

The growth in GCC was driven by higher volumes in the construction market for our products used in joint compound and roofing. The growth in this segment was offset by a 9% decrease in talc due to lower sales in our plastic and construction market products.

Operating income in the segment decreased 4% year over year to $26.6 million, primarily due to lower talc sales. Part of the sales decline was due to the hurricane in the Gulf of Mexico, which forced the closure of our Texas talc plant for several days. In addition, we experienced higher logistics cost from the storm due to reduced availability of our trucks for shipments.

Looking to the fourth quarter. We expect Paper PCC operating income to be similar to the third quarter. Growth in Asia will continue, however, our coated paper volume will continue to be lower in North America. In addition, we will absorb higher lime costs in the quarter that we will contractually pass through to customers in the first quarter of 2018.

In Performance Minerals, operating income will be lower as we enter the seasonally low period for this business. Overall for the segment, we expect operating income to be lower by $2 million to $3 million sequentially, which is a typical seasonal decline in this segment. However, note that we expect this to represent an approximately 10% improvement from the fourth quarter of last year.

Now let's take a look at Refractories. In the Refractories segment, sales increased 9% to $68.9 million. Operating income increased 24%, and operating margin increased 14%. The revenue increase was in refractory products, driven by a 7% increase in North American refractories and higher sales of laser measurement systems, which is having a strong year with increased demand globally. Operating margins improved to 14.4%. The margin improvement was largely driven by higher margin equipment sales and good cost control.

Operating rates for the North American steel industry averaged 74% through the quarter, and we see stable utilization rates continuing at this level. As Doug mentioned, we are commercializing our high durability product portfolio, which are tailored products that allow our customers to keep their furnaces in service longer.

Looking to the fourth quarter, we expect stable market conditions for our refractories products. Laser equipment sales will continue to be strong, however, lower than the third quarter. In addition, we are beginning to experience raw material cost increases that are impacting our operations. As such, we expect operating income to be similar to the third quarter for the Refractories segment.

Let's move to Energy Services. In the Energy Services segment, I'll discuss the sequential performance, as I think this provides a better measure of our progress. Sales increased by 6% sequentially as improvements in our North Sea and Australia filtration operations helped overcome the impact of the hurricane in the Gulf of Mexico.

Operating income was $1.6 million, compared with the $1 million we achieved in the second quarter. Good cost control and the higher filtration sales helped drive the operating margin to 8.4%, bringing the year-to-date margin to 8.2%. This performance is attributable to the efforts of the Energy Services team, which is delivering near-target margins, despite the low level of offshore production activity and the impact from the hurricane. Looking to the fourth quarter, we expect operating income for the segment to be similar to the third quarter.

Now let's take a brief look at our debt and liquidity position. We reduced debt by $30 million in the quarter, bringing our gross debt to $1 billion and net leverage to 2.3x. Our liquidity, including our revolver and cash, stands at approximately $415 million, giving the company a solid financial footing for investment in growth, continued debt reduction, and selective share repurchases.

So now let me summarize what we are seeing for the fourth quarter. In Performance Materials, we expect operating income to be lower by approximately $2 million to $3 million sequentially. In Specialty Minerals, we expect operating income to be lower by approximately $2 million to $3 million sequentially as well. As I previously stated, both of these segments experience typical seasonal sales declines in the fourth quarter. Turning to the outlook for our Services businesses in both Refractories and Energy Services, we expect operating income to be similar to the third quarter.

Overall, we see our fourth quarter earnings to be seasonally lower than the third quarter and at a similar level to Q4 of last year. I'd like to highlight for you that last year in the fourth quarter, we had a relatively low tax rate and foreign exchange gains, both of which we do not expect to recur in this year's fourth quarter. We see a strong operating performance in the fourth quarter, which will deliver continued year-over-year revenue growth and commensurate operating income growth.

Now I'll turn it back to Cindi and Q&A.

Cindi Buckwalter - *Minerals Technologies Inc. - VP of Investor Relations and Corporate Communications*

Operator, would you please queue up some questions?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And we will take our first question from Daniel Moore with CJS Securities

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Daniel Joseph Moore - *CJS Securities, Inc. - Director of Research*

Maybe just -- I think, Doug, you mentioned this in your prepared remarks, but the new satellite with Asia Pulp and Paper, when do you expect that to ramp? Do you expect any meaningful volume contribution in 2018 in the back half, or should we think about that more coming in really online in 2019?

Douglas T. Dietrich - *Minerals Technologies Inc. - CEO and Director*

The new satellite, Dan, the 80,000-ton I just mentioned that we announced this week, that's most likely to come on late in the fourth quarter. It usually takes around a year to build these, so that'll come on late in the fourth quarter. The one previous to that is probably -- the expansion that will come on first, that's the 40,000 ton, will be late second, early third. And then the new satellite, which is the larger one, the 125,000-ton satellite probably late in the third. So I think you'll start to see those 250,000 tons kind of being built and come online second half of next year. The big contribution will probably be late in the year, end of 2019.

Daniel Joseph Moore - *CJS Securities, Inc. - Director of Research*

And maybe just talk more generally about your confidence in the tenor of your conversations in signing additional deals over the coming months and quarters, both outside of the Mainland, as well as in China specifically.

Douglas T. Dietrich - *Minerals Technologies Inc. - CEO and Director*

I mentioned we still have a really healthy pipeline of opportunities across technologies, both filler in our new technologies and New Yield, but also in packaging. That's been a strategy to move, and particularly in Asia -- but not just Asia, around the world -- more into the packaging markets. And we've got a nice pipeline of that, and I think you're starting to see us drive movement in that. Why don't I let D.J. Monagle give you a little bit more color on some of the activity that's happening.

D. J. Monagle - *Minerals Technologies Inc. - Group President for Specialty Minerals and Refractories*

Dan, just to build on that a little bit. First one, let me just talk about some of the implied capabilities that these satellites exhibit. The team that we've built and the talent that we've developed in China is a big part of getting this satellite over the finish line. And they will be doing the building of the satellite. So the whole project execution, equipment procurement and selling aspect is -- and technical aspect is supported by the team that we've been building in China, which is hugely important for us and really sets us up for further growth. We go on that, and when Doug mentioned that robust pipeline, a majority of that is in Asia. It's a combination of India and China. And if you would look at, say, a dozen or so active pursuits, I'd say about half of them are in that region. A combination of standard filler satellites and some of the newer technologies like New Yield that we're pursuing, as well as trying to penetrate packaging with some improved coating products. And then we expand that to some other regions where our emphasis on packaging continues. So we've got a pretty good pursuit going.

Douglas T. Dietrich - *Minerals Technologies Inc. - CEO and Director*

Dan, if I can add one thing to that. I guess D.J. mentioned something, and I mentioned in my remarks, when we looked at investing in some growth, this is one of those areas. It's putting talent and capability in the region. So not only from the technical capability to sell, the contract capability to negotiate, but also the execution, the engineering and the manufacturing, the sourcing, everything in-region. So it's not done -- it's all done locally. That speeds things up, and that gives us the capability to react much faster. It's kind of an example of where we've been investing in our growth and investing in speed.

Daniel Joseph Moore - *CJS Securities, Inc. - Director of Research*

And maybe switching gears, Doug. Environmental Product's an area that has been a little light over the last quarter or two. Talk about your pipeline of opportunities there and your expectations for resumption in growth in 2018.

Douglas T. Dietrich - *Minerals Technologies Inc. - CEO and Director*

We've mentioned that this has been one where we've been moving away from some of the commodity. They're still important to the business, the landfill liners, but we've been working to develop higher, more sophisticated products like Resistex. I can tell you that it's not just landfill liners. We put some new leadership in that business, and we've been developing some new technologies. And actually applying some of our existing technologies that we've had for many years, bentonite-based technologies, into different areas of water, waste water, riverbed, et cetera. We've got a number of opportunities. We're still in some trial periods. Maybe I'll let Gary talk a little bit about what's going on in that business from pipeline of things that we're doing in environmental products. Gary?

Gary L. Castagna - *Minerals Technologies Inc. - Group President of Performance Materials*

Yes, Dan. Focusing a lot on more emerging applications, again, long ago, most of this business was about traditional landfill waste containment. We still have a significant share and still that continues on. We've evolved a lot of that know-how that we've developed over the 25 years we've been in that business to expand the capability now into much more of tailored solutions that are involved in the more significant areas of industrial waste containment. Examples are coal-fired power plants that have ash and residual streams that need to be contained, meet regulatory requirements. So that's obviously a global capability that we're developing. And then there are other areas in terms of remediation of water bodies. Projects that are well-known here in the U.S. where contaminant streams have been in place that we are involved with, but taking those particular streams and either containing them, or at least treating them in a manner that they can be disposed of. So all of these really line up, like Doug said, into very much in our wheelhouse in terms of technology. And in terms of dollars, hard to necessarily just say what's exact in the stream today. But any of these types of projects that you're talking about are multi-million dollar type of projects, given the types of streams that you're talking about. So we've got a ways to go to kind of fit our capabilities there, but plenty of opportunity in the stream right now in remediation and in industrial waste containment.

Douglas T. Dietrich - *Minerals Technologies Inc. - CEO and Director*

Dan, we've been adding -- kind of building a portfolio of environmental remediation solutions. So Resistex is one of them, but I mentioned some water technologies. It's really been the front of that portfolio what we've been marketing in China. And so we mentioned a lot of our activities there in terms of the eco-partnership that we developed and signed in 2016 with some university and customer partnerships. We're starting to see some traction there as well that I think will play out longer term. Probably into 2018 and 2019. Maybe Jon Hastings, who's been heading that up for us, can give you a flavor of what's going on with environmental products and some of the trials in China.

Jonathan J. Hastings - *Minerals Technologies Inc. - SVP of Corporate Development*

Let me just explain a little bit about the eco-partnership, and then I can say more about the portfolio broadly. The eco-partnership, as we formed with Sun Paper in Tsinghua, we wanted to demonstrate the New Yield technology. I want to say that we've been very successful on that. We've recently started an independent assessment with Tsinghua University. We wanted to -- basically, if you remember, we wanted to repurpose 100% of the lime mud waste stream, and I can say we've successfully demonstrated that with our full-scale manufacturing capability at Sun Paper. What we've done is we've leveraged that experience, and we've had conferences, we've participated with the Paper Association. We've participated with government officials, the EPB, which is the China equivalent of the EPA. And as we've done that, what we've learned is that there's a huge demand for environmental solutions that really span our portfolio. So as Doug had indicated, our New Yield product for the paper industry, the specialty GCLs for river remediation and capping landfills and lining retention ponds. And so now what we're doing is we're working with government bodies, both national, provincial and also local, in stimulating interest in all of our portfolio. And right now, we're in the process of securing pilots and making sure that we can demonstrate those technologies as a lead-in to future sales and demand.

Daniel Joseph Moore - *CJS Securities, Inc. - Director of Research*

Perfect. Greatly appreciated. And lastly, just to put a little bow on the guide, it sounds like obviously operating income is down slightly. Given the tax rate ticking higher, I assume EPS probably a little bit lower than the $1.08 that we did last year. Is that fair to say?

Matthew E. Garth - *Minerals Technologies Inc. - CFO and SVP of Finance & Treasury*

I think the right way to look at it, Dan, and what I was speaking to was, if you look at the tax rate last year, it was 21.6%. That included a number of discrete tax items. This year, we're looking for more something between the 23% and 24% level. That is having a below the line impact obviously on net income and EPS, and that's what we're guiding to with the similar EPS performance to what we saw last year. Overall from an operating income perspective, again, good growth on a year-over-year basis is what we're looking for in the fourth quarter.

Operator

And we'll move to our next question from Rosemarie Morbelli with Gabelli & Company.

Rosemarie Jeanne Pitras-Morbelli - *G. Research, LLC - Research Analyst*

I was wondering if I could follow up on the last question regarding environmental projects. When do you think, based on all of the steps you are taking, when do you think we are going to see an impact on top line and bottom line? And if we look at 2 years out, where could that particular -- those businesses, new businesses, amount to?

Douglas T. Dietrich - *Minerals Technologies Inc. - CEO and Director*

I think you're going to see some of that growth next year, Rosemarie. We're into -- obviously the fourth quarter, a number of these remediation projects, just given where they are and the weather, start to slow down in the fourth and first. But I think next year, with some of the opportunities that we've been setting up, that the leadership and that business has been setting up, you should see some revenue impact next year. All told, to mention what we see, the projects and the products and the regions that we're pursuing with these technologies we just mentioned are probably around $35 million. So for an $90 million business, $80 million business, it's a substantial growth rate as we get them. Now that's not all going to come next year, I'll just caution you, but we're going to start to be building out that portfolio. It's going to develop in China, in terms of the trials Jon just mentioned, here in the United States and other regions. And so we're getting some really good traction. We've got a good portfolio. I think you'll see some of that revenue and earnings growth next year.

Rosemarie Jeanne Pitras-Morbelli - *G. Research, LLC - Research Analyst*

And then I was wondering if you could talk about the progress regarding the PCC penetration in Paper, both in China and India. And are we still looking at potentially needing -- the industry needing more than doubling of the capacity?

Douglas T. Dietrich - *Minerals Technologies Inc. - CEO and Director*

I'd say the penetration is probably around -- we started a few years back at probably 7% penetration. And what we mean by penetration is the tons of PCC consumed in the marketplace for paper tons produced. China years ago started at about 7% and India was 0%. I think we've moved India up into that 15% range, and China's probably in the 10% range. Western regions, North America, Europe, that penetration equation is about 20%. So there's still a ways to go in terms of opportunity in China, India, Asia for PCC. Some of this -- in Indonesia, that paper is consumed throughout Asia, will affect that penetration in the Asia region. I can't give you the exact number as to how much it'll have an impact, but that is part of that penetration growth. We still have a lot of opportunities. Slower in some regions than others. But that opportunity set that we've described to you before of potential couple 2 million tons is still there. And that's that pipeline that we've been talking about. It's a healthy pipeline that's going to drive that or create that; we just need to drive it. And that's what we've been investing in, move that along faster directly in the region.

Rosemarie Jeanne Pitras-Morbelli - *G. Research, LLC - Research Analyst*

And looking at the paper market in the U.S., are we still -- U.S. I believe was down 4%. Are we still seeing a decline? Do you still expect mills to be shut down?

Douglas T. Dietrich - *Minerals Technologies Inc. - CEO and Director*

Yes. Volumes were down and the paper market was down about 4%. Our volumes this quarter were down I think about 4%, but that was largely still remaining in coated paper, coated and groundwood. This is the Jay mill. We announced the closure. There's been some curtailments and continued lower -- it's not in our filler business, but it is in that coated product, which is in a much faster decline here in North America. So that's the volume that you're seeing on a year-over-year basis in North America. The only thing right now, right now, operating rates in North America are around 90%. They were low 80s. I think they're low 90s right now, so that's a pretty healthy place. We don't see anything in 2018 that's a large filler mill in terms of closure. The only thing we know is International Paper has announced something in 2019, which is in their mill, their champion paper mill in Alabama. That's something that could impact us. Right now, we don't know enough about where those paper tons will be moved within their system. High likelihood that we're going to absorb them somewhere else in our system, but that still remains to be seen. D.J., you got any other thoughts on North America market?

D. J. Monagle - *Minerals Technologies Inc. - Group President for Specialty Minerals and Refractories*

Just to provide a little more color, Rosemarie. We see uncoated freesheet as operating in a pretty healthy range, like Doug was emphasizing at that 90% operating rate. We do see this continued pressure on the coated grades and the groundwood grades, but they're not a major part of our portfolio. And then what Doug was talking about, what is public that's out there right now is that the Verso organization in Jay, Maine is rationalizing some assets. So that's part of what we saw as part of this decline. And that thing that's going on in 2019 is that the International Paper organization is going to shift one of their uncoated freesheet mills to a packaging grade. Now we know that will affect us, but I want to highlight is that it's early on, but that grade that will go in there is a white top grade, so we will participate in that new machine. I just don't know exactly how that'll look. And also, we've got -- we've been developing for a while some new products targeting those packaging grades, and we would hope to have an opportunity to work with our partner and work with them on that transition.

Rosemarie Jeanne Pitras-Morbelli - *G. Research, LLC - Research Analyst*

And then lastly, if I may. Could you talk about what is behind the increase in lime cost. Is that electricity? What is it?

Douglas T. Dietrich - *Minerals Technologies Inc. - CEO and Director*

Usually it's energy. There's other costs in our contracts with lime customers. There's some pass through of energy and other items that we'll absorb. Past couple years, that had been in decline, and so we have lower lime costs. But then we also passed through those savings contractually to our paper customers. As Energy has started to move around and costs have changed, lime prices have shifted up in the fourth quarter. Our contracts allow us to pass those through. We'll do so contractually in the first. I think Matt was just highlighting that it's something we'll absorb in a temporary basis next quarter. Nothing out of the normal.

Operator

(Operator Instructions) And we'll move to our next question from Mike Sison with KeyBanc.

Michael Joseph Sison - *KeyBanc Capital Markets Inc., Research Division - MD & Equity Research Analyst*

In terms of acquisitions, the environment out there is pretty active. What are your thoughts in terms of adding some growth there? And just curious if there's anything on the bigger side that could be of interest to you. And I know you can't be specific, but just in general.

Douglas T. Dietrich - *Minerals Technologies Inc. - CEO and Director*

Acquisitions are part of our strategy of growth. There certainly are things out there that are interesting to us. Give you a flavor of the activity level that's going on. We meet once a week as a team, and we spend probably 3 hours in a day just reviewing activities. That's just formally, but there's a lot of informal activity that goes on during the week. So it's a pretty active process for us in the company. We've always said we have a portfolio out there of things we look at in the $1 billion to $1.5 billion revenue type range, all told. But there's a lot of smaller things and there's some medium size. I don't think there's anything out there that's of the size of, I tell you, the size of our last acquisition of AMCOL. But things that are interesting to us that are bolt-ons, geographically bolt-ons that really would position us well in some of our core product lines. Mostly minerals, I'll tell you that. Sizes now in the $50 million range to $300 million range. That gives you an idea of what's out there. Now again, things can be very active, but M&A is hard to predict in terms of how things play out. And so we keep at it and we're very patient. We're very disciplined about how we look at things as well in terms of what we'll pay. So a number of factors that go into actually concluding one.

Michael Joseph Sison - *KeyBanc Capital Markets Inc., Research Division - MD & Equity Research Analyst*

And it does sound like you have momentum in Specialty Minerals heading into 2018 and 2019. Granted, North America might stay weak for PCC. But do you have enough new projects to generate some growth in operating income over the next couple years?

Douglas T. Dietrich - *Minerals Technologies Inc. - CEO and Director*

Yes, I think we do. I've always said that I think what some of what we have in our new technology pipeline, with what we have in terms of positions we've developed geographically in some of those core markets like Metalcasting, Fabric Care, Pet Care, PCC, Specialty PCC, even our Talc business, I think we've got enough opportunity out there to go capture to keep us in this mid-single digit type growth rate. You know us, and I just highlighted how we operate and how we look at being as efficient as possible with any revenue dollar we get. We have invested in some of that growth early on, so put some expense dollars to work to develop the organization, and the technology people out there to start to affect faster sales growth. But at the same time, that investment is also, like I said, putting people in the locations to speed things up. We have a number of opportunities in these growing regions to improve efficiencies. As we build out our system of a blending system in China, right now we're operating more hub and spoke. We're shipping from larger distances because it's efficient to do so. As we scale up in that business, we'll be adding more efficient type supply chain activities that will lower our costs and drive higher margins in some of these new revenue dollars. So I think, yes, there's a number of opportunities we have in front of us for revenue growth, and we're always looking for ensuring, generating higher profits from those dollars.

Michael Joseph Sison - *KeyBanc Capital Markets Inc., Research Division - MD & Equity Research Analyst*

And then last question on Energy Services. I think you have a longer term growth goal in terms of sales, and the oil prices have started to kick up a little bit here. What's the right way to look at the potential of the business on its own now, and then what are the acquisition potentials that you could add to further improve the portfolio?

Douglas T. Dietrich - *Minerals Technologies Inc. - CEO and Director*

When we restructured the business a year, year and a half ago, we moved it to what we felt was the sustainable revenue streams over the long term. Those were the offshore markets, well testing, and water, the filtration -- produced water processes. We've scaled down the overhead there to make sure that it hit targeted margins. Our target's 10% at current revenue levels. But we also left the positions globally and the equipment globally to be able to scale that up to $200 million. So there's an inherent capacity in that business. So we'd have to add some people in terms of project to be able to run the projects, but we have an inherent capacity to double the size of that business. We've always said, though, that that probably won't happen until we see oil prices sustainably over $60, $65 for a period of time where you'll start to see offshore oil production ramp up. We're still not in that period. I don't see that happening for the next several quarters, but we have that potential in the business. And while we're there, there's opportunities in terms of technologies. I wouldn't say that we're acquisitive in terms of companies, but I think we'd be looking at technologies that further our capability in our filtration business, is where we'd probably look at that.

Operator

(Operator Instructions) And we'll move to our next question from Silke Kueck with JPMorgan.

Silke Kueck-Valdes - *JP Morgan Chase & Co, Research Division - VP*

Did you quantify what the hurricane-related effects were in terms of sales and profit and how it's affecting the individual segments? And is there anything that you think may affect the fourth quarter?

Matthew E. Garth - *Minerals Technologies Inc. - CFO and SVP of Finance & Treasury*

The way that we look at it and what we described was impacts that were really across the whole entire company. So you can see in Energy Services, that's where the bulk of the impact was, obviously with the activity that was taking place directly there in the Gulf. And then also the transportation impacts across the rest of the company in moving product around the country. Overall for the company, we estimate that it was about $2 million sales impact with anywhere between $0.5 million and $1 million operating income impact, and so obviously the majority of that sits in the Energy Services business. But as we look to the fourth quarter, the way that the impact is going to play out is largely in how the projects that we're currently scheduled for the third quarter are moving out for the Energy Services business. I could probably give it over to Andy to give you a little bit more on that about how those projects are trending.

Andrew M. Jones - *Minerals Technologies Inc. - VP and MD of Energy Services*

It's Andy here. Most of the impacts from the hurricane was absorbed within the Houston area in the planning stages of some of these projects. So that pushed some of those projects later into the fourth quarter and even into Q1 next year. We have a number of very large projects on the horizon, which take quite a bit of planning and have a lot of infrastructural impacts with them. Those now have been pushed generally towards the end of this quarter and Q1 next year. So we haven't lost any of that work, but it's certainly moved forward in relationship to what we thought earlier this quarter.

Silke Kueck-Valdes - *JP Morgan Chase & Co, Research Division - VP*

Within the segments, did you have pricing in any of your divisions, if you're getting a pricing anywhere on the Specialty Minerals side, Performance Materials side, or was it all volume?

Douglas T. Dietrich - *Minerals Technologies Inc. - CEO and Director*

I'd say the majority was volume. There's definitely some pricing. There's some more of a mix impact, I think is what you're seeing. One area we didn't have a good pricing, not something we control, is chromite. So we had higher volumes of chromite sold this quarter over last year. Prices of chromite are about half, maybe a little less than that, but about half of where they were last year. So that's what I think Matt had described as some of the margin compression that we saw in the segment. We do have, I mentioned we'll have some pricing in Paper PCC that's contractual. We've seen some raw material increases, and so have some of our competitors, and so that gives us some opportunity. We're going to have to be pushing up pricing going forward in our minerals businesses. We're also seeing going forward, I'll just kind of give you a caution now, we're seeing, due to some of the environmental actions that are going on in China, it's been impacting us both positive and negatively. On the negative side, it's been curtailing some of the magnesium oxide production in China, which is driving up pricing. Now we are very diversified in terms of how we purchase our MgO, but it affects global pricing. So we're starting to see increases in the fourth, primarily in Asia, but we're going to start to see increases in magnesium oxide. Though we typically, as you know, are able to move those through in our pricing of our products to cover. So I think we're starting to see a little bit of pricing pressure, which will move things up, but I think net-net to your question, in the third, pricing was maybe a little negative on us just because of that chromite.

Silke Kueck-Valdes - *JP Morgan Chase & Co, Research Division - VP*

With the environmental regulations changing in China, and some of the output being [inaudible], is magnesium oxide the only thing that's affected by that in terms of raw materials that you've purchased?

Douglas T. Dietrich - *Minerals Technologies Inc. - CEO and Director*

No, there's other things. We've navigated some other challenges in China. A number of our lime producers have faced inspections and permitting and some shut downs of lime kilns that support the paper business. Again, we're very diversified in terms of our ability to buy lime in China, so we've seen some impact there. We have navigated those. On the other hand, it's creating some opportunities for us. We're getting a lot of demand, and it's really driving some of what Jon Hastings mentioned in terms of trials of our water remediation technologies, riverbed remediation, and some cleanup areas that provinces are starting to pull on. I think our eco-partnership has put us in kind of a good position nationally to be recognized as someone that can help, and I think we're starting to see some of that pull through. So there's some positives and negatives to it, but it certainly created some challenges for us in the quarter and going forward on the minerals commodity side of things.

Silke Kueck-Valdes - *JP Morgan Chase & Co, Research Division - VP*

And lastly, I was wondering whether you can divulge what your depreciation amortization was in the quarter, like all-in.

Matthew E. Garth - *Minerals Technologies Inc. - CFO and SVP of Finance & Treasury*

For the entire year, Silke, it's about $85 million to $90 million. In the third quarter, it was about $25 million. So that's really where we're running. I think thematically, if you're thinking about overall cash flow, let me give you two seconds on that. CapEx so far this year, we've been about $55 million. Still on track for about $70 million to $75 million for the full year. And then looking at working capital, typically what you do see is builds across the year as we move through the seasonal peak periods. With the fourth quarter being seasonally lower, we do expect cash flow to benefit from working capital reductions in the fourth quarter.

Operator

(Operator Instructions)

Douglas T. Dietrich - *Minerals Technologies Inc. - CEO and Director*

Okay. Go ahead, Cindi.

Cindi Buckwalter - *Minerals Technologies Inc. - VP of Investor Relations and Corporate Communications*

Thanks to all of you for joining us this morning. We really look forward to talking to you again next quarter, and hope you have a great day. Thank you.

Douglas T. Dietrich - *Minerals Technologies Inc. - CEO and Director*

Thank you very much.