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MTX - Q2 2017 Minerals Technologies Inc Earnings Call

EVENT DATE/TIME: AUGUST 04, 2017 / 3:00PM GMT

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PRESENTATION

Operator

Good day, and welcome to the Second Quarter 2017 Minerals Technologies Inc. Earnings Conference Call. Today's conference is being recorded.

At this time, I'd like to turn the conference over to Rick Honey. Please go ahead.

Rick B. Honey - *Minerals Technologies Inc. - VP of IR & Corporate Communucation*

Good morning. Welcome to our second quarter 2017 earnings conference call. For today's call, Chief Executive Officer, Doug Dietrich, will provide an overview of our results and our strategies to drive growth; and Chief Financial Officer, Matt Garth, will follow with a more detailed review of our financial performance.

So I'd 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.

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

Thanks, Rick. Good morning, everyone. First off, I want to start by announcing that this will be Rick's last call with us. After 1 or 2 attempts, which we successfully thwarted, he's officially retiring in the next few weeks. I want to say that all of us here at MTI are enormously grateful for his contributions to the development of the company over the past 25 years.

Amazingly, this is his 93rd earnings call with MTI. We're certainly going to miss his voice kicking things off each quarter and having him with us when we're out visiting with each of you. Rick, thank you.

Okay. Let's move on by hitting some of the highlights from the second quarter and review the operating performance of our minerals and services businesses. Then I'm going to give you an update on innovation at MTI, the progress we're making with new product development and the potential that it provides for our future growth. And finally, I'll turn it over to Matt Garth for a more detailed review of our second quarter financial results.

We recorded solid financial performance for the second quarter, posting earnings of $1.23 per share, a 3% improvement over last year and a record second quarter EPS for the company. Our sales levels were similar to last year, as the growth we saw across the majority of our minerals product lines was offset by lower sales in Environmental Products, Refractories and North American Paper PCC, yet we drove operating margins to match the highest in the company's history at 16.8%.

Our minerals businesses performed well, with the majority of our minerals product lines growing this quarter over last year. We continue to execute on the opportunities for growth in China, with overall sales there up 17%, which was driven by growth in both Paper PCC and metalcasting. Operating margins for the combined minerals businesses remained solid at over 18%.

Our services businesses also had a strong performance, with margins of more than 13% despite lower sales levels. Global steel markets have stabilized. However, offshore oil and gas markets remained volatile.

We maintained our focus on debt reduction this quarter, paying down $33 million in principal. Over the last 3 years, we've repaid over $530 million in debt, which has improved our balance sheet considerably and has opened up additional opportunities for capital deployment.

We also continue to strengthen the operating foundation and culture of the company through our continuous improvement activities that remove wastes from our processes. The number of improvement suggestions received from our employees has increased by 22% this year. We've held more than 2,900 kaizen events, an increase of 48% compared to this time last year.

Our expense reduction lead team, 1 of our 4 global policy and culture-setting teams, is in its 10th year and continues to have a tremendous impact on the company. This group identifies and executes cost savings ideas, both big and small. And to give you an idea of the impact this team has, last year, these ideas saved the company more than $3 million.

I continue to spend much of my time aligning the organization with our vision and growth strategy and focusing everyone on activities to accelerate sales growth. I've made significant changes to our leadership and sales organizations globally and have invested strategically in sales-generating resources as well as sales support structures to drive organic growth.

Here's a chart of our sequential earnings for the past several years. Earnings this quarter of $1.23 per share are up 3% over last year, again, a record for any second quarter.

This chart shows our quarterly operating income and margin over the past several years. Our operating margin of 16.8% is also a record second quarter and was driven by a strong profit generation from both minerals and services businesses.

Let's review our 2 minerals segments, Specialty Minerals and Performance Materials. The chart on the lower right delineates the product lines contained in these segments and the relative size from a revenue standpoint. We saw growth across the majority of our minerals product lines. In Performance Materials, our metalcasting business is having a strong year globally. Year-to-date sales improved 11% over last year, driven by nearly 50% growth in China, where we continue to penetrate the foundry market with our premixed blended bond systems. We also recently launched a lightweight cat litter formulation in China, which is gaining traction in the marketplace.

In our Fabric Care business, we recently launched a new additive product we produce at one of our plants in the United Kingdom that will contribute to our sales throughout the remainder of this year. We also saw improved sales in Building Materials this quarter, as large construction projects began to ramp up. And sales in our drilling products to both oil and gas and nonoil and gas applications grew 39%. Lower sales in Environmental Products offset this growth because of fewer large remediation projects compared to last year. But despite the reduction in large projects, we're seeing our new technology, such as Resistex, become more widely recognized as the most cost-effective solution to environmental remediation challenges. This has resulted in a stronger project pipeline, including in China.

In Specialty Minerals, Paper PCC volumes in North America were lower this quarter. However, the business continues to grow in Asia, with volumes up 16% over last year. Our pipeline of new opportunities around the world for our PCC technologies remains strong. And this quarter, we signed an agreement for our FulFill V technology with a North American papermaker, and we continue to gain traction with our NewYield coating formulations and paper recycling technologies.

We're starting construction of a new satellite in Indonesia, along with expanding our existing satellite there. This project will add 165,000 tons of capacity, a 12% increase in our current installed base in the Asia region. This capacity should come online late in the second quarter of next year and set up 2018 as a growth year for our Paper PCC volumes.

We also saw growth in our Specialty PCC ground calcium carbonate and talc product lines this quarter, and we see continued strong demand for these products. In fact, we're working on several production capacity expansions to keep up with customer demand. These expansions should also come online in 2018.

Now let's take a look at our services businesses, Refractories and Energy Services. Sales were lower in both segments this quarter, yet operating margins remained solid at more than 13%. Global steel markets remained stable. However, refractory sales were impacted this quarter by changing furnace conditions and furnace relines, which temporary lower customer refractory consumption. Offsetting this was our equipment business, which is having a strong year and is growing sales over last year through geographic expansion and the commercialization of new laser technologies. We're also making progress with the deployment of a new high-durability refractory product portfolio, which is gaining broader market acceptance, demonstrating that it can deliver significant value to our steelmaking customers.

In Energy Services, offshore oil and gas production remains relatively weak, and filtration service sales were lower than expected as flowback work was limited in this quarter. Well-testing services remained relatively stable throughout the quarter. On the technology side, we're developing new offshore filtration solutions for difficult produced water issues. We've also developed a unique, comprehensive produced water diagnosis method for offshore production platforms. And thus far, results are promising for this new diagnostic tool, which has proven valuable to several initial customers and has helped generate both additional service work and equipment sales.

It's been several quarters since we've reviewed with you our new product development pipeline, a pillar of our growth strategy. And I'm pleased to report that we've made significant progress with the development of many new products over the past couple of years. MTI's heritage was built on a foundation of solving customer problems through innovative uses of minerals. Understanding customer needs, helping them to reduce costs, improving their quality or enhancing their product offerings has been and will continue to be the basis for fueling our R&D engine.

Since the AMCOL acquisition, we've accelerated product development activity at all stages of our product development pipeline, increasing the number of new ideas and products at each stage over the past 3 years. This acceleration is a direct result of the linkage of our expanded R&D resources and technologies around the world since the acquisition.

Some highlights to note.

First, we have 31 new products in the precommercialization stage, similar level to last year but almost double the number compared to 2015.

Second, the potential value of the products in Stages 3 to 5 of the pipeline, which are the stages where new ideas become funded and developed in the commercial products, is over $700 million. Of course, for a variety of reasons, not all of these products will make it to market -- fully to market or reach their addressable market potential. But at historical rates, approximately 65% of those that reach Stage 4 will make it to commercial products. This is a result of our process of closely tying new ideas directly to customer needs. We use a lean approach to product development, just as we do with our manufacturing and business processes. For example, we apply a rigorous screening process at Stage 3, where we decide whether or not to fund new ideas. This approach directs our focus in spending on the products with the highest potential and eliminates time spent on projects that are not valued by our customers.

Third, each of our businesses -- business units are well represented with products and ideas in the pipeline. In Specialty Minerals, we're working on new technologies in filler coating and pigments, advancements in our high-filler technologies as well as technologies that address customer issues elsewhere on the papermaking side. We're also working on innovations in mineral synthesis and processing as well as new nanoparticles for use in a wide range of applications in automotive, construction and consumer products.

In Performance Materials, we're developing new bentonite clay-based products for consumer products, agriculture and environmental, foundry and construction markets. Across all stages, we have products in development to address animal health and care, new filtration technologies for water and food and beverage, advanced metalcasting formulations, higher-value fabric care technologies and new soil amendment formulations.

In Refractories, I spoke earlier about our new high-durability refractory materials, but we're also developing advanced laser measurement technologies to bring even more sophistication to the steelmaking process.

In Energy Services, I mentioned our new filtration technologies and produced water diagnostic service offering that's being deployed around the world.

Fourth, many of our new products are targeted at opportunities for applications, specifically in China, India and Southeast Asia. The company's efforts through our China lead team, combined with our eco partnership with Tsinghua University and Sun Paper, have opened up a number of opportunities for our NewYield process technology that converts paper mill waste stream into a usable pigment and for our geosynthetic clay liners for coal ash and red mud containment and riverbed remediation as well as our Enersol products to improve crop yields.

Historically, approximately 15% of our revenue is generated from products commercialized in the past 5 years. It also, on average, has taken us about 4 years to move an idea -- from an idea to a commercial product, depending on the business and product type. To accelerate our growth, we've set targets to reduce the product development cycle time by half and significantly increase the number of ideas in the pipeline. To achieve this, we're working on deeper engagement with our customers to better identify their needs.

We also continue to further refine our product development process. Many times, it requires both failing faster in development of some products to accelerate development of products with higher potential. We've already made significant progress toward these goals, and in the past few years, several of our businesses have shortened the product development cycle time from an average of 4 years to 3 years.

In summary, we believe that we have a very healthy new product pipeline, with a highly disciplined stage-gate development process. We talk a lot about our geographic expansion activities and how they are a significant engine of our organic growth. But new product development has been and continues to be a core capability of the company and an equally significant driver of our future growth.

So here's how I see the next several quarters shaping up from a growth standpoint. First, we're making solid progress on our geographic expansion initiatives. Our businesses are growing in China, the rest of Asia and in South America. We have strong customer demand in our mature markets for both existing and new products, and we have several new capacity expansions in the works within our minerals product lines that will come online in 2018 to support this growth.

Second, the new technologies and products that we commercialized over the past year are gaining traction in the marketplace in each business unit. And we recently launched several other new products in Fabric Care, Pet Care and Refractories, each should continue to grow as we move toward the end of this year and into 2018.

Third, our balance sheet is in a much stronger position than it was 2 years ago. We've deleveraged significantly since the acquisition. We've always taken a balanced approach to allocating capital, and our lower debt position gives us greater options and flexibility to deploy that capital.

The fundamentals of the company are very solid: operating performance, cash flow generation, new product development, market positions, employee engagements and we have multiple levers for growth. Across both our minerals and services businesses, we're building sales growth momentum through capacity expansions, continued geographic sales growth and a healthy pipeline of opportunities for our newest technologies. I see this momentum carrying us solidly into the second half of this year and into 2018.

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*

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

We delivered solid financial results in the second quarter, with earnings per share of $1.23, which was 3% higher than 2Q last year and a record for our second quarter. Our reported earnings were $1.21 per share. In the second quarter, we achieved strong growth in many core product lines. Metalcasting sales increased 11% due to a 48% increase in China and a 4% improvement in the U.S. Basic Minerals and Building Materials sales were each up 3% and Processed Minerals sales increased 2%. We also experienced growth in our drilling product sales, up 39%, while Pet Care was up 2% and Personal Care products grew 3%. However, the growth in these product lines was more than offset by the year-over-year decreases in North American paper, Environmental Products and Refractories.

Operating income decreased 1% to $69.5 million. However, on a constant currency basis, operating income was slightly higher than last year. Operating margins improved 2% to 16.8%, which, as Doug highlighted, equals the highest in the company's history. This result was driven by increased sales in several key product lines, the improved profitability we drove in Energy Services and Refractories and a 4% increase in productivity across the company.

Our effective tax rate in the quarter, excluding special items, was 23.8%, and we expect that our full year effective tax rate will be approximately 25%. Cash flow for the quarter was strong at $61.7 million, bringing cash flow for the first half to $77.6 million. As Doug noted, we paid down $33 million in debt in the second quarter, and our net leverage ratio is now under 2.5x.

As highlighted in the operating income bridge, our services businesses, Refractories and Energy Services, delivered strong operating increases on a year-over-year basis. In our minerals businesses, profits were lower due to decreases in Environmental Products, which now sits in the Performance Materials segment, and Paper PCC sales.

Let's now review our segments, beginning with Specialty Minerals. Specialty Minerals sales decreased 2% from last year due to the previously mentioned North American paper mill closures that occurred in 2016 and several extended maintenance outages at our U.S. customers. This impact was partially offset by a 6% increase in China PCC sales, driven by the ramp-up of the Sun Paper satellite.

MTI global PCC volume and revenue growth should return in the second half of this year, as we eclipse the U.S. closures and our Asia volumes continue to grow. Our Processed Minerals and Specialty PCC product lines grew 2% on strong customer demand in the transportation and construction markets. These markets also helped to raise talc sales by 1% despite lower sales in our health care product line. Operating income decreased year-over-year to $26.9 million due to the lower PCC North America sales and higher energy costs in our Processed Minerals businesses. The segment achieved productivity improvements of 8%, which helped to overcome the lower sales and maintain strong operating margins at 18.3%. Looking to the third quarter, we expect Paper PCC operating income to be slightly higher sequentially on increased volumes, particularly in Asia. In Performance Minerals, operating income will be lower than the prior quarter due to the typical seasonal sales decreases we experienced late in the third quarter. Overall for the segment, we expect operating income to be lower by approximately $1 million to $2 million sequentially.

Now let's turn to Performance Materials. Sales in this segment decreased 1% compared to last year. As stated earlier, several product lines in Performance Materials delivered solid growth year-over-year. Most notably, sales in metalcasting increased 11% on strong performances in our China and U.S. markets. Again, Building Materials sales were up 3% and Basic Materials sales also increased 3% due to the higher drilling product sales. Lower Fabric Care sales in Asia and lower global Environmental Product and bulk chromite sales fully offset the strong gains across the rest of the portfolio. The decrease in Environmental Products sales year-over-year was primarily driven by large projects in the second quarter of 2016 not recurring this year. As Doug noted, we have made advances in growing our global sales pipeline in Environmental Products and expect improving sales performance in this business as we execute on capturing pipeline opportunities. Also, our Fabric Care sales are ramping up as the customer changeover to our new product line begins. Operating income in the segment was $32.2 million, and operating margins were solid at almost 18%. Versus the prior year quarter, higher volumes in metalcasting and drilling products were fully offset by the lower sales in Environmental Products, bulk chromite and Fabric Care.

Looking to the third quarter. We expect operating income to be similar to the second quarter based on the strong product -- drilling product sales, increased Fabric Care sales and a consistent metalcasting performance, which will depend on demand levels in the North American automotive market. These increases will be mostly offset by the typical seasonality we experience in the construction and environmental markets.

Now take a look at Energy Services. In the Energy Services segment, sales decreased year-over-year by 11%, largely due to the exit of our onshore service lines in the second quarter of 2016. We also experienced weaker filtration sales, as activity in the Gulf of Mexico did not pick up as anticipated, which was partly driven by tropical storm-related delays.

Operating income was $1 million compared with a loss of $700,000 last year and represented 5.6% of sales, which brings our year-to-date operating margin to 8.2%. Continued benefits from our restructuring efforts taken last year and a strong performance in our capital sales product line are driving the year-over-year improvements.

Looking to the third quarter. We expect operating income to be similar to the second quarter. However, as you are aware, we primarily serve the global offshore rig market, with roughly 60% of our sales concentrated in the Gulf of Mexico. Any adverse seasonal weather conditions in the Gulf may impact our performance in the quarter.

Moving to Refractories. In the Refractories segment, sales decreased 7% to $68.9 million while operating income and margin both increased. Sales of our high-technology laser measurement systems were more than offset by the lower metallurgical product sales, where the market remains very competitive. Steel utilization rates in the U.S. were the same as the second quarter of last year and 1% higher sequentially. However, maintenance outages and the change in our customers' furnace conditions reduced consumption of our refractory products.

Operating income increased 2% to $10.5 million and was 15.2% of sales compared with 13.9% of sales in the prior year. Operating margins improved due to the higher level of laser measurement equipment sales and also strong manufacturing productivity. Looking to the third quarter, we expect operating income to be lower by $1 million to $2 million sequentially, as we do not expect the same level of higher-margin equipment sales to occur.

So now let me summarize what we are seeing for the third quarter. In Specialty Minerals, we expect operating income to be lower by approximately $1 million to $2 million sequentially. In Performance Materials, we expect operating income to be similar to the second quarter. In Energy Services, we also see operating income as similar to the second quarter. And lastly, in Refractories, we expect operating income to be lower by $1 million to $2 million sequentially. In total, MTI's third quarter earnings are expected to be $1.15 to $1.20 per share.

Now let's move to the Q&A. Operator, we are ready for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

And we'll take our first question from Dan Moore with CJS Securities.

Robert S. Majek - *CJS Securities, Inc. - Research Analyst*

This is actually Robert Majek filling in for Dan this morning. PCC volumes remain under pressure. When do tough comps from last year's capacity decline for North America and kind of when do you expect to turn the corner to positive growth overall?

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

Yes. I'd take that. So those shutdowns that occurred last year, Robert, largely ended in about end of May, June of last year. So we've just eclipsed that. I think, in Matt's comments, he showed that those will improve in the second quarter. To give you a little idea, our growth in Asia completely offset -- our growth in Asia this quarter completely offset the declines in North America in the quarter. So volumes this quarter were flat, but that 16% volume growth offset those shutdowns from last year. And what we see is going through the remainder of this year, that growth coming back, so in Q3, Q4 and then certainly into 2018 as we put in 165,000 tons of capacity in Asia. On top of that, I'll let you know, we have a pretty strong pipeline and some activity going on in our Asia region for some potential new satellites. And we're working on those as we do all the time, and we're hopeful that we'll get some more satellites to build next year as well. So that sets up 2018 as a good, strong growth year for Paper PCC volumes, and we'll see some growth in the second half of this year.

Robert S. Majek - *CJS Securities, Inc. - Research Analyst*

And then switching gears, can you point to anything causing the declines year-over-year in Fabric Care, household and personal care products? Is that softness likely temporary? And has there been any change on the competitive landscape there? Any color would be appreciated.

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

Sure. We mentioned this on our fourth quarter call, I believe it was. We had a surfactant granule to a major customer that they were changing technologies. So that technology change was about 6 months. And so we've moved through that in the first half. That's the largest decline, that one product to that customer. Offsetting that, through the remainder of this year, is a new technology that I'll let Gary talk a little bit about. But that new technology is ramping up as we speak and should provide some good growth throughout the remainder of this year and into next. Gary, why don't you give us an idea what that technology is?

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

Yes. We'll be -- well, we actually are already in the process of shipping an optical brightening agent to a major multinational in dry laundry detergent. And so -- and that was in the plan. As Doug said, we had a sunset of one technology and a bring-on of a separate type of technology. And the optical brightening agent, we're pretty excited about not only for this initial phase for the current business, but to take advantage of that technology to other applications in the emerging market areas, especially where dry laundry detergents are still on the increase. So we expect to see the downslope you saw in the first half of the year made up in the second half of the year and beyond.

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

And Robert, further to that, we've got -- I showed you the technology pipeline. There are other fabric care technologies in there that we're working through, and we're going to continue to -- that's going to be a core area for the household and personal care product lines. So in that product line, Pet Care, pet litter, but that Fabric Care business is going to show some growth throughout this year and certainly into next.

Robert S. Majek - *CJS Securities, Inc. - Research Analyst*

That's helpful. And just lastly from me, Doug, you've made some changes recently to realign the leadership and kind of changes in incentives to try to improve organic growth. Can you just update us on the progress thus far? And are there any tangible benefits you can point to? And when would you expect to see meaningful change...

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

Yes. A couple of things have changed so far this year. You remember, we combined 2 segments, the former Construction Technologies and put them into one segment called Performance Materials. With that came some significant organizational change. Part of that was in China, where we have a very strong leader in that region that's taken over those -- all of those product lines. And that's really to focus the decisions in the region locally with customers, so we can move a lot faster with trial activity, with customer needs and concerns, understanding issues and moving a lot faster with developing sales. And developing sales both in metalcasting, developing sales in our new Pet Care products, those all have been combined, and in particular Resistex and our environmental solutions. And I mentioned in my comments that we're seeing healthy uptick in the pipeline of opportunities for that Resistex for coal ash, red mud and, more recently, riverbed remediation. So that was one area that we put together. Behind that, though, I'll give you -- the manufacturing organizations of the 2 businesses have been combined. And the reason we did that is there's a lot of synergies in terms of the plants -- similar plants where these products are produced, where the bentonite clay is mined and refined and processed going into these product lines, and to really unify and strengthen that manufacturing organization across that whole segment where some of the synergies that I saw capable. And that -- though it's not overt on sales, it's really in support of cost structures and being much more competitive with cost structures to get those products to market faster. That's in that one segment. We've made some other changes. We've had a couple of new leaders join the team. Kevin Porterfield is taking over Performance Minerals business, probably before me, but Brett Argirakis is running our Refractories business. Made a couple other changes in Specialty Minerals recently. One of our -- the Head of our Paper PCC business left the company. And we've -- D.J. Monagle is running that business directly right now. And we've got a really strong team behind him. And that's what I mentioned. We have a lot of potential in our pipeline. So a number of changes both at the top levels. I mentioned in my comments, I've been selectively putting in sales, and even more so technical sales in regions that I think will help get that closer connection to customers. So I gave you a lot there, but it's both from manufacturing, support structures, direct sales and leadership changes in the company.

Operator

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

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

And Doug, following up on the previous question regarding growth based on the changes that you have just made, what type of top line growth do you see in terms of improvement versus past performances just based on those changes, not based on your products?

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

Well, it's hard to quantify and give you, okay, what I think those particular changes will deliver. Rosemarie, I've always believed that the inherent growth rate of this business is in the high single digits. And I was commenting this morning that we are so diversified, we see a really strong business, really strong growth in our metalcasting business. One of the larger product portfolios grew at 11% so far this year. And then you're hit temporarily with some declines in Refractories and some Energy Service work gets shifted around. So we do have some diversity in our product line. But I do believe that with the Environmental Products and the opportunities we have around the world with paper, with the Refractories and new product development, with what's behind that technology portfolio, the structure that I've put in place will accelerate those to market and I think getting a lot closer to the customer to bring that sales in. And I think getting closer and pushing, driving closer to that, what I think that inherent growth rate in this business is organic growth rate to this business.

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

So you are expecting organic growth at 8% to 9%, is that what we are talking about?

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

Those are high single digits, yes. I think, Rosemarie, I think you'll -- I actually think you can see in the third quarter, you can see a 5% growth. Now I'm going to tell you that, that's probably off a bad comp. So I'm not going to say it's real. But I think you're starting to see some of what's going on with our drilling products at 39%. You've got -- our Paper PCC business should return to growth, and we've got a lot of capacity next year. Putting expansions into that Performance Minerals business, which is growing at 2% and 3% right now, but I think those expansions will drive it up to 4%, 5%. So I think things that we're doing and I'm telling you, it's coming, it's coming in the third and the fourth quarter. But certainly, I see activities that we're doing today into 2018, pushing things up above the 2% and 3% that we're giving you, net of foreign exchange, into the 5-plus percent.

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

That is very helpful. And if we look at the Environmental, if I remember, probably last quarter, there were 2 large projects, which were delayed. Are those projects still kind of lined up before being done? Or is it in the second half? Or are they pushed until 2018?

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

So let me give you a little bit of the ins and outs in the quarter. And then maybe Gary Castagna again can give us a little bit more color on what's going on in Environmental Products. Last year, we had a very large red mud project that was through the second and into the third quarter. They don't occur all the time around the world. Right now, we're really focused on 1 or 2 major customers and the work that we're doing to get closer to not only the large non-Chinese aluminum producers and coal-fired power plant electricity producers. When you're with a very narrow group of customers, you're going to get lumpy sales. As we build out our capability and build out this technology and have it more recognized with broader customers, that pipeline will fill out with more opportunities and we'll see a more regular flow of product work. And I won't be here saying it's a lumpy Environmental Products up and down every quarter. Gary, maybe give us a little of what's going on, some of the resources we put into that business or what I'm talking about in terms of direct sales and technology?

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

Right. Rosemarie, so yes, when we came out of the first quarter into second quarter, you do get into the seasonal change that does happen, especially in Environmental Products that tends to be a higher level at this point than other years. And so there are some weather conditions that impact. But in terms of where -- bringing further where Doug was at, the technology portfolio that were coming along with these more advanced industrial waste containment areas and remediation areas are now getting a bit more into the pipeline of these projects in these areas. And we expect in the second half of this year that -- where last year, we saw on the first half a couple of those projects; this year, will probably be more into the second half of this year that we begin to ship more of those. And the goal again is to have those to be more on an ongoing regular basis despite the seasonality. So the key right now is to have more downstream coverage, and that's where we have deployed more personnel at those decision-makers, at those key site owners to win those projects on a more consistent basis, longer-term-type contract arrangements. And we're starting to see some of the fruit of that. So the Environmental Products will always have a bit of seasonality to it, second and third quarter being peak. But at the same time, we are now going to see more work in some of these advanced industrial waste areas that will even out the flow and not to mention the geographical expansion that we expect to see, especially in China and Asia, where some of these same issues are front in environmental product technologies. So more work to be done but better as we see the year progressing in terms of where we'll be shipping and where our backlog will be building.

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

Rosemarie, maybe if I can, before we move on, just let me get you a little deeper into the strategy behind what we're doing here with Environmental Products. The business historically has been heavily sales dependent to find projects around the world, to keep the pipeline full. And some of the product lines are becoming more commodity. And not that they're not good business for us in some cases, but they're very competitive in terms of some of the typical landfill market. The strategy of the business has been -- and what we're developing here is moving into these higher-technology products that apply to very difficult remediation-type situations, riverbeds and we mentioned a couple of coal ash and red mud containment. But the difference in that type of market, if you're able to provide that technology to major multinational aluminum and energy producers around the world, if you're able to be able to supply that on a consistent and high-quality basis, these -- as aluminum is made and energy is produced, this is a consistent type of landfill market that we can project out years, right? So we can look at 3, 4, 5 years out what's going to be developed. We can be testing that, and we can start moving into an area of more consistent-type sales and project coverage from one that's more project oriented, if you get it, you get it, which is what historically. So we're developing that. We're moving that. And that's when I talk about Resistex becoming more widely recognized and as we enter into China in the long term, a lot of remediation activity, we're having some trial activity starting up. So this is what's going to be providing that shift of strategy in that business for the long term.

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

That is very helpful, Doug. How large do you think Resistex can be in a couple of years?

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

I think we've projected Resistex could be over $30 million, $40 million in sales on to itself over the next couple of years. And I certainly think that China provides an enormous opportunity. I'm not going to dimension that for you now as we're pretty early days, but that's what we've been planning on for over the next 2 to 3.

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

And then lastly, if I may. What are the anticipated revenue levels that you are looking at in 2018 from your expansion in both PCC and GCC and talc?

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

Well, I'm going to say I don't know. I'd (inaudible) for you. It's a good question. I [doubt] it myself, Rosemarie. I'm going to give you -- all told and the expansions we're putting in place, you've got -- you've probably got about 50 -- $40 million to $50 million in revenue when it's fully loaded. That's fully loaded revenue and capacity. Now again, that's -- Paper PCC takes time to ramp up, but we're putting in some significant capacity expansions in the 4, 5 that I mentioned.

Operator

And we'll take our next question from Silke Kueck with JPMorgan.

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

What happened to operating cash flow in the quarter? So I remember is that I think your target was to maybe have operating cash flow that's sort of like similar in the first half, what you did last year in the first half. And can you explain like what's happened to receivables, whether you expect that to get better in the third quarter and what sort of like your target is for operating cash?

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

Sure. As I said, through the first half of the year, operating cash flow was about $77.6 million. A big driver of the working capital performance, as you noted, was accounts receivable, which moved up. We do have a seasonal working capital build that we did see stronger this year. And part of that is the mix of revenues that we get. The more we sell into Asia -- terms in Asia are a bit longer than they are in the western part of the world. So we are experiencing some of that. However, you also saw good performance in us driving our AP levels higher to offset a bit of that. And again, on the inventory line, if you're looking there, you'll see a bit of an increase, and that is seasonal as well. As you look to the second half of the year, we do see -- for the full year, we're expecting total cash flow to be similar to what we delivered in 2016. So the second half of the year will be stronger than the first half of the year, and working capital will be a driver of that increase.

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

In your Performance Materials business, so metalcasting is -- like the largest component of metalcasting, like U.S. business is probably half of that. And how much visibility do you have into that market? And how close are you tied to like U.S. auto sales? Does it matter? Or does it not matter? And what's sort of interesting is typically in the third quarter for like the last 2 years, it seems that like profits from the second to third quarter always dipped a little bit. But in like this year, you expect it to be flat. And so I was wondering how much visibility you have into the third quarter.

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

Gary, why don't you go ahead and take that?

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

Okay. Silke, yes, that's the right observation in terms of the typical trend domestically. And we see that, that there will be a dip because automotive, again, if you look at it all the way through the metalcasting sales -- of our total sales, which in the quarter were approximately $75 million, give or take now that probably is about 1/3 of that number is driven by automotive. Of that 1/3, though, call it, maybe 20% now is U.S. automotive. So you'll have -- the 2 big automotive drivers will be China now and the U.S. So within that portfolio, that's the single largest underlying component. However, in the U.S., we have seen some cyclical upturn in some of the industries that have been a bit down, namely farm equipment and civil infrastructure and even some things like oil and gas. Those ancillary markets make up approximately 60% of the U.S. iron casting output, okay? So we've seen a bit of a good run there. And actually, visibility, to your question, is pretty good. Those industries do -- they have to be agile. There's no doubt about it. They move quickly. But the up and down anymore is not nearly that great. So that's the U.S. component. But the other key underlying component is the 48% increase in the sales in China. That is both in the automotive, which is market share, and as Doug mentioned, the advancement in our product offering there that's winning that. And on top of that, we are also -- we have a specialized product line that's used mainly in steel foundry production. And our production of that -- excuse me, our sales of that product line in China grew substantially in the quarter. So we've got a pretty broad portfolio. No doubt, largest mover is the U.S. automotive, if you look at it, but not a dollar for dollar, big, big swing component on the total metalcasting sales.

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

And I think the other thing that I'd add to that, Silke, is let's not forget India. India is now the second largest foundry market in the world, just past United States. We don't talk a lot about our sales there because we're building it like we're building China. But it's grown substantially over last year. It's not necessarily to the point where we're going to call it out as moving the needle, but we are making some investments and expansions in India. We did last year. So this business is growing quite a bit. You see 11%. We do have visibility in North America. We're conscious of automotive, and we're watching that. But we have some strength in other markets, as Gary mentioned, and geographically that's really supporting it. So we're pretty bullish and positive on it.

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

And lastly, what's the state of the PCC plants that were going to start up this year? So there's like the [Zhengda] paper mill. Did that already come on? And how about the [Zhejiang Sheng] paper plant?

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

Well, both of those, we still have not put in the investment. I'll give you a little bit why. A couple of the -- 2 of the plants, when we signed those contracts a couple years ago, Silke, the health of one of them has changed a bit. And so we're watching to make sure that, that business is stable before we put that investment. The second one's a little more interesting. We were ready to break ground, and this is the [Zhengda] mill, and the government has put a halt to that for the moment. And the reason they've done that is because they're asking that mill to relocate. And so before we get into moving things around or before breaking ground or putting any investment in -- and we're not exactly sure when that will happen or if that will happen, to be honest. We're waiting to see what the government is going to decide in terms of making that business -- that company, that papermaking company move their plant. So these are the challenges we sometimes face in China. But those are 2 that -- and the latter one being the bigger, I think, of the 2 in terms of our time frame. We don't have a time frame for you on that right now.

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

Okay. So like the growth in Asia on Paper PCC is mostly from the Sun Paper mill?

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

It's the 250,000 tons we've put in that's ramped up, so the coating satellite, the filler satellite and the NewYield facility that we've put there. And that continues to consume more as we refine the product and create more value.

Operator

(Operator Instructions)

And we'll take our next question from Mike Sison with KeyBanc.

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

When you think about special minerals in 3Q, you talked about better volumes in Paper PCC and some sequential [kaizen] in minerals. How does the momentum in Paper PCC look heading into the fourth quarter given that China continues to do well and you've already lapped some of the North American closures?

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

I think it looks really good. Let me -- how about I let D.J. Monagle talk a little bit about what we see in paper and then give you a little more in performance as well.

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

Glad to. So Matt had addressed just the seasonal shift that you're seeing in Performance Minerals. But on the paper side, as we're eclipsing just the math that's associated with the North America volumes, Doug highlighted earlier, we've got several outages that happened in North America that's typically a low time. They come on stronger in the third and fourth quarter. And then in China in particular, our business with Sun as well as our progress with the other base that we've got in China in particular, but across Asia, continues to allow us to provide more product into all of their -- across all of their grades. So we'll continue to see growth there. We announced the 165,000 tons in Indonesia, and they'll be coming on in 2018. So you're going to see incremental growth around the world in the third and the fourth quarter, probably a little bit more in China in that fourth quarter. And then Asia starts kicking in more in the first and second quarter of 2018. And Doug highlighted earlier that the pipeline is pretty robust in Asia. It crosses -- it goes across a lot of the traditional products, but it also touches base with that new product portfolio that Doug was highlighting.

It's products that are addressing some environmental concerns we've been lapping now. That is NewYield. It is further penetration that we're hoping into packaging as well. And so you'll see that, that robust pipeline that we're trying to deploy in Asia is our traditional filler products, but it's also got some new technologies in there as well, just according to the plan that we've been pursuing.

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

Okay, great. And I know it's a little bit early to think about '18. But given the momentum, do you think Specialty Minerals is potentially on track to generate some earnings growth next year?

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

I do. In total, yes. I think a number of the expansions, let's say the majority of the expansions I mentioned are in Specialty Minerals. Those are the more -- those are the significant ones. So I think that what we're putting in place and what we're installing in both Performance Minerals and paper is going to really be behind and fuel that growth. I think when you look at the Performance Materials business, we also have some expansions, we didn't talk about them today, in Europe. We talk a lot about consumer products. Well, when you look at the things that we're working on with our Pet Care, with Fabric Care and also with some filtration -- and when I say filtration, it's not oil and gas. We're talking about edible oil filtration. And that's in the consumer product, and we're putting in some expansions there. So we've got a number. We're also putting in expansions to support our growth in China and the blended products that I mentioned in India. So there's a lot going on. There's a lot going on in the company. There's a lot going on in terms of what we're putting in place, capitalize to support growth, real growth that's there. And I think even -- and we talk a lot about our minerals businesses, but we're not doing that in Refractories and Energy Services. We've got some really good technologies that we're deploying. And that's got a high durability product that's really promising that's starting to grow later this year. So I think the reason for kind of why I was highlighting some of this on the technology portfolio was trying to get you a little bit deeper inside of all the stuff that's going on. I know there's some ups and downs, but we are making headway on a lot of new technologies. They're coming out now. They're going to be coming out next year with the capacity expansions. I'm not going to give you a number right now. We'll give you that a little bit closer to '18, Mike. But I think '18 is setting up for a really nice growth here for the company.

Operator

(Operator Instructions)

And there are no further questions in the queue at this time.

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

All right. Thank you very much. And once again, Rick, I want to say thank you for all the years of service in the company, and we will make sure we keep in touch with you, right, even if we don't hear your voice on the call.

Rick B. Honey - *Minerals Technologies Inc. - VP of IR & Corporate Communucation*

All right. Thanks very much.

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