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CORPORATE PARTICIPANTS

Brett Argirakis *Minerals Technologies Inc. - VP and MD of Minteq International Inc*

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

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

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

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

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

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

CONFERENCE CALL PARTICIPANTS

Curtis Alan Siegmeyer *KeyBanc Capital Markets Inc., Research Division - Associate*

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

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

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

PRESENTATION

Operator

Good day, and welcome to the Fourth Quarter 2017 Minerals Technologies Earnings Call. (Operator Instructions) At this time, I would like to turn the conference 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, Ruth. Good morning, everyone, and welcome to our Fourth Quarter 2017 Earnings Conference Call. On today's call, Chief Executive Officer, Doug Dietrich, will provide an overview of our results, key drivers and 2018 perspectives; and Chief Financial Officer, Matt Garth, will provide a more detailed review of our 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 this slide. 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 fourth quarter, and then I'll go into the full year. I'll turn it over to Matt Garth for a more detailed review of our fourth quarter results, and then I'll come back to finish it up with some perspectives on 2018.

But before I begin, I'd like to thank all of our employees for their many contributions to MTI in 2017. We are in a leadership position today because of the hard work and commitment to operational excellence and continuous improvement by our employees around the world.

Let's move on to our results. We had a solid fourth quarter with earnings per share of $1.10. Total sales increased 8%, continuing the trend from our third quarter. Notably, each business segment and each major product line within the segments showed growth this quarter. Asia, and specifically, China continues to be a strong sales region for us, with growth there driven by both Metalcasting and Paper PCC. Notably, this is our 12th consecutive quarter of year-over-year growth in China. Our Minerals businesses grew significantly, up 9% driven by increases across most of the product lines, and of particular note, strong growth in Metalcasting, Household Personal Care as well as Building Materials.

Our service businesses also had a solid quarter with sales growth of 5%, driven by increases in both Energy Services and Refractories.

Total MTI operating income rose to $63 million, 4% higher than last year, with operating margins of 14.5%. We continued our strong operating performance from an efficiency standpoint, we improved productivity by 6% in the quarter. Paper PCC had a particularly strong quarter with a 10% productivity improvement over last year.

Cash flow was $57 million in the quarter, and we repaid $30 million of debt. In total, it was a solid fourth quarter for MTI, and a stronger second half of the year.

Before I move on, let me also touch on several special items that we recorded in the quarter. First, the change in U.S. tax law, which is a positive for the company, resulted in a $47 million gain in the fourth quarter. The change in law will also have a slight positive impact on our effective tax rate going forward, which Matt will run through later in more detail; second, we took restructuring and noncash impairment charges in the quarter. Matt will also walk through these numbers, but I wanted to provide some context around this as well. These charges reflect cost saving steps we are taking to address the impact of the paper mill closures in North America and to capture additional efficiencies in our shared services organization. We're also realigning resources within the Paper PCC business and shared service functions, and shifting support activities to our growth regions. We expect to realize approximately $6 million in annualized savings from these actions and accelerate our growth track in Asia and Latin America. These organizational changes follow the steps we took earlier this year to improve alignment in the company, and to focus our businesses on activities to accelerate sales growth.

Now let's take a look at our full year financial performance. In 2017, we reported a record earnings per share of $4.59, an increase of 3% over 2016, with revenue and operating income each up 2%, and continued strong operating margins of 15.7%. 2017 was a year of investments and organizational alignment in terms of people, products, and geographies, with a number of changes and investments that have set us up nicely for continued growth in 2018 and beyond. The first half of the year was challenging from a growth perspective with sales down 2% year-over-year. We began the year facing paper mill closures in North America, a continued weak energy sector, and were in the middle of rebuilding our Environmental Products team and sales pipeline. We made a number of adjustments, including several key organizational changes, which I'll briefly recap in a moment, and ended the year on a stronger note, generating growth of 7% in the second half of the year and some good momentum going into 2018.

I would like to highlight some of the changes we made and actions we took, because I believe they are key to improving our performance and to providing more meaningful, long-term sales growth. First, we combined our Performance Materials and Construction Technologies businesses into 1 operating segment. We placed leaders with profit and loss responsibility over each product line to create the focus necessary to drive our new product offerings and better serve customer needs. We completely reorganized our Environmental and Building Products teams, and brought in new talent and rebuilt the sales pipeline. We also created 1 global operations organization to leverage talent across the business, improve utilization of the manufacturing platform that supports these product lines, reduce costs and speed the deployment of new products into the market. We're very pleased with how the teams from these areas came together to significantly improve performance this year; second, we further developed and deepened our organization in China and throughout Asia. We streamlined our corporate and resource unit structures in the region and created more local commercial leadership, with focus on product lines and customers, which led to meaningful results.

In the Performance Materials business, we made significant progress in moving our customers to higher value products in the foundry market in China, where we have increased our market penetration and blended green sand bonds systems to approximately 8%. Additionally, we're beginning to see accelerating growth in our Metalcasting business in India and Southeast Asia. In our Pet Care business, sales have continued to grow rapidly in China, with sales in 2017 doubling from the prior year. The changes we made earlier in 2017 in our Paper PCC business in Asia also yielded results, where we signed 2 new PCC contracts and 1 expansion in Indonesia, adding 245,000 tons of new business; third, we invested in new technologies in 2017 and expanded several of our facilities to support customer demand for new products. We strengthened our technology pipeline this past year and focused on advancing technologies more rapidly through the stage-gate process. We commercialized 81 new products in the past 5 years, and we expect to deliver revenue of approximately $300 million at full run rate. Other highlights from 2017 include our Refractories business, which reported the second highest operating income in its history, including record sales of our high-tech laser measurement systems.

Turning to operations, we continued to improve our manufacturing processes through our initiatives in operational excellence and lean. In 2017, productivity rose by 6%, and marks the eighth year in a row we had productivity improvements of 5% or higher. We also continued our progress in deploying operational excellence throughout the company. The number of suggestions received from our employees increased by nearly 20% to 53,000, and we implemented approximately 70% of those suggestions.

We held over 6,000 Kaizen events this year, an increase of more than 50% from 2016, which means that more than 15 structured problem-solving events are occurring each day throughout the company.

We had another year of strong operating margins and cash flow. We continued to strengthen the balance sheet and reduced our debt by another $110 million, bringing our net leverage ratio down to 2.2x, providing us broader options for capital deployment.

All in all, a solid year with a number of accomplishments that set us up for a strong 2018.

Before I turn it over to Matt, let me finish with a chart of our earnings over the past 8 years. As I mentioned, earnings per share this year were $4.59, an increase of 3% over 2016. So the eighth consecutive year of record earnings with a notable increase after the AMCOL acquisition. This represents a 14% compound annual growth in earnings over this period. With that, let me turn it over to Matt for a more detailed review of the quarter, then I'll be back to share more on our perspective for 2018. Matt?

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

Thanks, Doug, and hello, everyone. I'll review our fourth quarter results, the performance of our 4 segments, and also provide you with our outlook for the first quarter of 2018. We delivered strong sales growth of 8% in the fourth quarter, driven by increases in every segment of the company. As you can see from the operating income bridge on the right, Specialty Minerals, Refractories and Energy Services all grew income on a year-over-year basis. Performance Materials also had a strong quarter but was impacted by lower bulk chromite pricing, which reduced operating income by approximately $5 million relative to last year. Despite this negative impact, total fourth quarter operating income grew 4% to $62.5 million, reflecting the strength of our core businesses.

Earnings per share, excluding special items, was $1.10, up 2% year-over-year and reported earnings were $2.12 per share. Our higher operating income was slightly offset by below the operating line impacts of lower foreign exchange gains and higher tax rate.

So now let's review the reconciliation of adjustments to reported EPS. Reported earnings for the fourth quarter were $2.12 per share, and earnings excluding special items were $1.10 per share. The recent U.S. tax law change resulted in a $47 million benefit, which was comprised of 2 items: the gain on the remeasurement of our deferred tax liability, using the new 21% statutory rate, which totaled $82 million, and a $35 million charge from a repatriation tax on accumulated foreign earnings. This tax will be paid over the next 8 years. And let me note here that we expect two key benefits from the tax law change: First, we currently estimate our full year effective tax rate going forward to be approximately 2 percentage points lower than our rate in 2017 due to the domestic tax rate change; and second, we expect greater flexibility to utilize cash balances that are currently held overseas for our domestic needs. Please keep in mind that these numbers are based on our current estimates of the impact from the recently passed legislation, and also that our tax rate will continue to fluctuate based on the mix of domestic and foreign earnings.

Next, as Doug mentioned earlier, to better align our resources to growth regions, we recorded restructuring and other charges of $9.4 million pretax primarily related to severance and other employee-related costs. We also took a noncash asset impairment charge of $5.3 million pretax, largely related to paper mill shutdowns and a $2.1 million write off of receivables due to the bankruptcy of a Paper PCC customer in Malaysia. As a result of the restructuring actions, we expect to achieve $6 million pretax in annualized savings with approximately 50% of that amount to be realized in 2018.

Now let's move to a more in-depth review of the businesses for the quarter. Our Minerals businesses grew 9% in the quarter, driven by strong growth in both Performance Materials and Specialty Minerals. Metalcasting sales increased 17% over last year, driven by 22% growth in China. Building Materials sales grew by 21%, particularly in the Western United States and Household and Personal Care increased 16% due to growth in our U.K. Fabric Care line. In Specialty Minerals, Paper PCC grew 4% and Specialty PCC and GCC grew at 8% and 9%, respectively, on stronger demand in the transportation and construction markets in the U.S. and Europe. Overall, for the Minerals businesses, operating income increased by 1% year-over-year, as the growth across the business was largely offset by lower bulk chromite pricing.

With that, let's move to Performance Materials. Revenue in Performance Materials increased 12% compared to last year, while operating income decreased by 4%. The profit decrease was entirely due to the 30% market price reduction in bulk chromite that reduced this segment's operating income by approximately $5 million versus the prior year quarter. This lower profitability more than offset the strong operating income growth and margins delivered by the segment's other product lines. We saw strong sales growth from every major product line in the quarter. Again, Metalcasting was up 17%, Building Materials sales increased 21%, Household and Personal Care increased 16% and Environmental Product sales increased 10%.

Operating income was $28.1 million and operating margin was 14.4%. The decline in operating margin versus last year was primarily due to lower chromite pricing. The margin was also impacted by ramp-up costs to our new Fabric Care product and an unfavorable mix within Environmental Products. As we move through 2018, we expect margins to return to average historic levels above 16%.

Looking to the first quarter, we expect operating income to be similar to the fourth quarter of 2017. Given the current low market price for bulk chromite, we will ramp down mining and production, which will impact first quarter profitability by $2 million to $3 million, sequentially. However, strength across the other businesses in this segment will fully offset the chromite decline in the quarter. And for your reference, the full year chromite impact on operating income will be approximately $9 million when compared to the prior year.

Now let's turn to the Specialty Minerals segment. Specialty Minerals sales were up 4% versus last year. Paper PCC had a strong quarter, with 4% sales growth on 2% volume growth. Volumes grew in Europe by 8%, driven by higher capacity utilization at our European facilities, particularly our coating plant in Finland, and at our France and Portugal PCC plants, which each grew volume over 7%. Our expansion in South Africa helped deliver a 9% increase in volumes, and we continue to grow in Asia. In Performance Minerals, improved year-over-year demand from transportation and construction customers helped grow Specialty PCC and GCC sales at previously mentioned level above 8%, which more than offset a 2% reduction in talc sales. Operating income was $23.3 million, an 8% increase over last year. The improvement was primarily driven by additional sales volumes across this segment and the benefits of continued strong productivity and expense control driven by the team. Looking to the first quarter, we expect Paper PCC to perform at a similar level sequentially and Performance Minerals to be higher by $1 million on the seasonal sales uptick we typically experience late in the first quarter. So overall for this segment, we expect operating income to be higher by $1 million, sequentially.

Now moving on to our Service businesses, Refractories and Energy Services. Sales increased 5% and operating income also rose 5%. Operating margins were very strong at 13.4%, with both of our Service businesses contributing. In Refractories, we generated strong operating margins of 14.3% on 5% revenue growth. We continue to drive sales and innovation to our customers and effectively manage our cost structure to deliver the businesses' second-highest annual operating income on record. Energy Services also had a strong quarter, posting a 10.4% margin, which is slightly above the 10% operating margin target we set in our 2016 restructuring plan of the business.

Now let's review the Refractories performance. Segment sales increased 5%, driven by a 13% increase in metallurgical products, and a 3% increase in Refractory products. Refractory products experienced growth in every region, while laser measurement systems, which delivered a record full year in 2017, saw Q4 '17 sales slightly lower due to more level-loaded shipments across the year versus the back-end waiting of higher sales in 2016. Despite this mix change, segment operating income grew by 4% and operating margins were strong at 14.3%. Looking to the first quarter, we expect slightly higher sales as compared to the fourth quarter and operating income to be up $1 million, sequentially. Note that we are beginning to see higher magnesium oxide pricing in the first quarter.

With that, let's move to Energy Services. Now recall that for our Energy Services segment, I discussed the sequential quarter changes because I believe it is a better relative measure of our performance. Sales increased by 11% sequentially on increased North American filtration sales as customers in the Gulf of Mexico caught up on activities slowed by hurricanes in the third quarter of 2017. We also generated higher capital equipment sales globally. Operating income was $2.2 million, resulting in an operating margin of 10.4% and a full year margin of 8.9%. Looking to the first quarter, we expect slightly lower filtration activity due to the catch up of activity that occurred in the fourth quarter, and we do not expect the same level of capital sales. That said, we expect operating income to be slightly lower, sequentially. Note that while we have seen some signs of increased activity in offshore services, we remain cautious with respect to any sustainable improvement.

Now let's review our debt and liquidity position. In the fourth quarter, we generated $57 million in cash from operations and paid down $30 million in debt. Our gross debt now stands at less than $1 billion. Net debt is $755 million and net leverage is 2.2x EBITDA. Our liquidity, including our revolver and cash on hand, stands at approximately $415 million.

To put the capital structure in proper perspective, you can see that over the last 4 years, we have paid down nearly $600 million in acquisition-related debt. The company's capital structure is now well positioned, and we expect to continue to generate strong cash flow going forward.

So now let me summarize what we're seeing for the first quarter. In Performance Materials, we expect similar profitability, sequentially, as growth across the segment will offset the reduction in bulk chromite sales. In Specialty Minerals, we expect a late quarter seasonal sales increase in Performance Minerals to increase segment operating income by $1 million. And turning to the outlook for our Service businesses. Sequentially, Refractories' profitability is expected to increase by $1 million and Energy Services operating income is expected to be slightly lower. I also want to note for you here that we are seeing higher energy and raw material costs that will impact us in the first quarter. However, we are managing these higher costs, and we expect first quarter earnings to be approximately 5% higher than last year and in the range of $1.10 to $1.15 per share. Now I'll turn it back over to Doug to provide our perspectives for 2018.

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

Thanks, Matt. Before we open it up to Q&A, let me provide you with some perspectives on what we see in 2018 and share our enthusiasm for what lies ahead. We ended 2017 on a strong growth trajectory, with revenue rising 7% in the last 6 months, and we see this trend continuing. The year ahead, however, will not be without challenges. We're seeing increases in raw material prices, a very tight transportation and logistics market and pressure from higher energy costs. We need to manage all of this, but my view is that we're beginning 2018 on solid footing across all of our businesses.

In Performance Materials, Metalcasting continues to be a growth engine for us, particularly in Asia, while North America remains a solid market. We are adding capacity to support strong demand at our facilities in China, India and Thailand. Demand is healthy in our Pet Care business for both our packaged and bulk products, and we anticipate continued growth in 2018 for our Pet Care products in Asia and North America.

In Fabric Care, as I mentioned earlier, we are scaling up a key additive for dry laundry detergent at our U.K. Fabric Care facility. Our customer is beginning to roll out their product to target markets worldwide, so we expect to see demand continue to increase in 2018. As I mentioned earlier, we established new commercial teams in Building Materials and Environmental Products this past year, and they've built stronger sales pipelines driven by demand for our new higher-value products.

In Specialty Minerals, we're adding 245,000 tons of PCC capacity in Asia by the end of 2018. This is a 5% increase in our global installed capacity, and will contribute to overall PCC volume growth this year and into 2019.

In addition, our pipeline of new opportunities for our PCC business throughout Asia remains strong, including targets for our innovative NewYield and FulFill technologies. We're also working with customers on trials of new packaging technologies, as we continue to move into this growing market segment.

In our Specialty PCC, ground calcium carbonate and talc product lines, we're completing 3 production capacity expansions to keep pace with growing customer demand for our new products.

In Refractories, we're 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 customers, and we see continued strong demand for our laser measurement systems. We are seeing significant raw material price increases this year, primarily with magnesium oxide, which the business is managing through.

In Energy Services, we are seeing some signs of improving market conditions. Importantly, we have much greater visibility to filtration and well testing projects as we sit this year compared to this time last year. Throughout 2018, we expect margins to improve as we achieve our cost savings targets and generate greater leverage from the contribution of new sales. And it goes without saying, that we'll continue to refine and improve our processes to foster deeper employee engagement, because our employees are at the heart of everything we do, and they are the lynchpin of our operational excellence culture. To wrap up, we see a stronger 2018 ahead, supported by a strong balance sheet and broader options for capital deployment. We're very well positioned to deliver profitable growth again in 2018. Now let's open it up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We'll go first to Silke Kueck with JPMorgan.

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

A couple of questions. The start of the 245,000-ton of PCC capacity. When do you expect that to come on? Is that something that will happen in the fourth quarter of '18 or sooner than that?

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

Well, the first one to come up, we have an expansion, at the 1 mill, Perawang facility. So we have an expansion that's coming online probably in the second quarter. We have a 100,000-ton new satellite at that same location probably in the late third quarter. And then, we're working on the other 100,000-ton facility, probably late fourth quarter. Right now, we're still working through the engineering, it could be the beginning of '19, but probably late fourth quarter of this year. So...

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

Secondly, I was wondering whether when we look at your sales growth this year, I was wondering if you could quantify for the year and for the quarter, what the benefits were from currencies. And my memory is that in the fourth quarter of '16, there was sort of like a $20 million headwind from fewer days in the year. Is that something that was of benefit this quarter or it really wasn't?

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

Silke, the way currency impacted us for both the quarter and for 2017, the impact was pretty minimal on both, a topline and operating income basis. So not a big mover here in the quarter.

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

Yes. I think in the fourth quarter percent on sales -- I think the full year was 0 on sales, Silke. The way to calendar for us is following, I think we have the same days. There's no difference in days. So we're not calling it out this first quarter.

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

Okay. That's helpful. And then lastly, is -- I was wondering whether, if you could tell us what your cash tax rate was in 2017. And is your cash tax rate in '18 going up or down and to like what extent?

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

So the right way to look at taxes. If you look at overall in 2017, the effective tax rate was about 23%, in the quarter, in the fourth quarter it was 22%. What I spoke to in the prepared part of the discussion was that we're expecting a 2 percentage point reduction. The reason we did that is to give you a sense of what it would look like across the quarters. But for the year, you can take that approximately 2% and deduct it from what we saw in 2017 and that would get you in the range of 21% to 22%. I think from a cash perspective, the right way to look at this, Silke, is there would be -- the tax rate reduction in the U.S. is going to deliver about a $7 million to $8 million cash benefit to us going forward. That's going to be offset over the next few years by the toll tax and if you remember, $35 million is going to be paid over 8 years on the government schedule of 8% through the first 5 years and then escalating to 15%, 20% and 25% in the last 3 years. So there's a pretty sizable cash benefit to us on a net basis between those 2 elements.

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

Cash benefit is about $8 million a year.

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

The net cash benefit is probably about $8 million positive for year.

Operator

We'll go next to Daniel Moore with CJS Securities.

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

Wanted to drill down a little on the -- you mentioned $5 million impact year-over-year from lower bulk chromite prices. What was the contribution for the full year of '17 and what are your expectations for -- it sounds like you're winding down, are you winding down entirely? Just trying to get a sense of year-over-year impact as we think about '18.

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

Sure, Dan. Look, a couple of years ago, this is a business that we acquired with AMCOL. We've never looked at this as a core business for the company. We've largely held it for sale since we bought it. We have -- when we bought the business, we had inventories on hand and, when we announced a partnership with Glencore where they -- we were buying chromite from them, they were also taking some of our excess stocks of raw materials and some of the low-cost ore we had available. Took advantage of that through some of '16 and '17 when prices were high. In the fourth quarter, the contribution was positive. But the delta we're calling out, I think, is the prices last fourth quarter were probably in the 300s, I think, Gary, in chromite and they were down to 150s, 160s this year, which is a more normal level of pricing, the 160 range. Right now, we're at a position in that mine where it -- and that slightly requires investment, and so we're not going to do that, it's a non-core business. And so we are going to be ramping down sales of what we have on hand and ceasing operations at that facility. Now the impact of that highlight is about $3 million -- $2 million to $3 million in the first quarter. The total net of that ramp down will probably be about $9 million for the full year. However, we see that we fully offset that with the growth that we've been seeing through the other businesses throughout 2016 -- throughout 2018. Does that help?

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

It certainly does. And then you mentioned in the prepared remarks, the 81 new products, I don't know if new products is the right terminology, but at a run rate being potential $300 million of revenue. Where would that run rate look like today?

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

Here, let me give you, Jon, Jon Hastings. That -- let me clarify what that is. We look at things over -- what are we generating over the past 5 years from new products developed. And so those 81, we think, going forward at full run rate is $300 million. We probably are at about a $130 million of that right now, in terms of those products deployed more recently. Is that right, Jon?

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

That's correct. So Dan, like Doug said, we've introduced 81 products. The contribution in 2017 was roughly $130 million worth of sales. Over time, that will ramp up. Some of those products will move off because they'll timeout on the 5-year metric that we use, but we've got a pipeline, for example, we've got another 40 projects that we're looking to introduce this year. If they all hit then that will contribute another run rate of about $170 million. So again, you'll see this evolve over time, but the impact, like we said, in 2017 was around $130 million.

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

Very good. And then lastly, you mentioned pipeline remains robust obviously, we're bringing on 245,000 tons. Just talk about maybe any update on discussions and your confidence about putting additional new satellites in backlog or new agreements as we look out for the rest of '18.

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

Sure, let me, D.J. do you want to fill that out?

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

Sure. Dan, so got a -- over a dozen active discussions, I think what is different right now for us is that we've got some discussions going on in -- with some packaging manufacturers as well as some traditional printing and writing grade manufacturers. So feel pretty confident that we'll see in addition to the 245,000 tons associated with the 2 new satellites we're doing in Indonesia, I am pretty confident that we will be able to put a few more new satellite contracts in this year that's upcoming. If I were to guide into regions, it's probably in Asia. But we do have some interest in North America and South America as well.

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

Dan, I think, let me add to that a little bit. I think, it is about highlighting a little bit -- the new products in the Paper PCC business and where they are geographically. So D.J. mentioned traditional filler, those opportunities are primarily in Asia, China, India, Southeast Asia and that's where that pipeline that he mentioned is going. NewYield -- primarily an Asia phenomenon and so we've got a nice pipeline of probably 6, 7 targets for that NewYield. When you look at packaging, however, we do have some activities, new products and some trials going on in packaging. Kind of across all packaging types. We've got the -- kind of coating product for that white high-end container or boxboard for cosmetics and small appliances. We've got some technologies into brown bag and brown box. And I can give you those trials and that activities are targeted not just Asia, that's North America, it's Latin America, and it's also Asia. So we've got a number of different things in new technologies that are working across packaging, coating and our traditional filler, kind of around the globe. So there's a pipeline of those new products and our traditional filler satellites that's kind of behind 2018 activity.

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

Perfect. Last one, and I'll jump out. Any way to quantify in the quarter, kind of the impact of the U.K. facility whether that was a detriment to operating income, and how should we think about that ramping in the next couple of quarters?

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

Yes, look -- right -- the highlight here is the decline in margins in Performance Materials. Obviously, it's right out there. So we're trying to highlight for you that chromite price was significant and that's going to be ramping down, but that was probably half of the margin decline through chromite. The other half are some of the activities that we think will move through. That is some of the startup costs that we have in our U.K. Fabric facility, it was ramping up in the third -- in the fourth quarter. It's probably just now at its full run rate, so we're -- we're getting to that in the first quarter. And with that came lower margins from the sales as we work through some of the startup. We also have a startup going on in Turkey for some specialty products. That should be coming online in the second quarter. And so we're now absorbing some of those costs. So I think as you get through -- as we get through kind of the first 2 quarters this year, you're going to see margins and margin improvement in the Performance Materials business. We think we have a solid year ahead with a lot of the new products, the Fabric Care, the new specialties and our growth in Metalcasting, throughout the year, we'll be back to kind of our historical of 16% kind of rate. One of the things, I'd like Gary to give you some color here, some of the growth in Asia, I think we have to give you some perspective on how that is impacting margin and the potential of it going forward. Gary why don't you give us on some color on China in Metalcasting?

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

Yes, Dan, so on top of what -- I'll get back to finishing up on the original question. But in Asia, you saw the 22% increase in Metalcasting sales in China. And this -- we've been at this for quite a while over there in terms of ramping up and winning share. We are in -- obviously in a big winning share in growth stage that does come with capturing share with our lower-end product lines. And then as we move in with those particular key foundries that our customers we move them on to a higher value product line. And so we'll be into a sequencing mode there as improving margins as we move customers more towards the higher value products, more aligned with what we realize here in the U.S. So in the Metalcasting market, (inaudible) established there, we have got a pathway to really see margin accretion as the year progresses.

In the Personal Care related product lines, principally Pet Care and Fabric Care in Asia, these are product lines that are in emerging stage, particularly Pet Care. And again, we're in early stage of production, productivity, improvement in scale comes along as we gain volume. And fortunately, the pathway for the growth in both of those product areas are looking pretty positive as long as we can keep up with the productivity elements, which we have really in good shape now. So the growth in Asia both the Metalcasting and Personal Care and Pet Care are going to be also benefits down the road. And then finally, back to your question on the major product line that we've been launching and scaling. That, as we speak, if you look at just moving from the fourth quarter to the first quarter of this year, our productivity levels have been increasing in significant levels, 20%, 30%, type productivity improvements and getting scale on that -- in that product line with the customer. The fortunate part, the most fortunate part is that the traction of the product in the market seems positive at this point. So the indicators we've given you in terms of the sales ramp up over the course of the year looks quite positive. So in combination, all those areas look quite promising to recapture margins.

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

So Dan, hopefully, (inaudible) acute -- a couple of acute issues here in the fourth quarter, but some really good opportunities we see as we move through the first, second quarters to be moving these margins northward.

Operator

We'll go next to Rosemarie Morbelli with Gabelli & Company.

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

I was wondering if you could give us a little more details on the large projects for both -- for the Building Materials as well as the Environmental. And if you could link the Environmental growth to the new regulations in Asia and what should we expect?

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

I'll start it off, and then I'll probably give it to Gary, to give you a little bit more color. Yes, so there are -- we've -- a couple of things we did this year in Building Products and Building Materials and Environmental Products. We kind of realigned and changed the sales organizations, much higher performing group and organization structure, bolstered by how we put together the operating groups to make sure that we were more effective in delivering these new products, one of them being Resistex, but some other products in the Building Products group. So we are now moving things through and out in the market, better cost structure, better efficiency and logistics et cetera. So introducing these new products. That's helped us to build a pipeline. Those pipelines that we're building is really around some of these new products that we have. Again, Resistex, not so new, but Resistex for coal ash and red mud, but other new products in Building Materials. To your point in Asia, and China in particular, yes, we are trialing some of our Environmental Products and pilots right now, as we've moved into some riverbed remediation opportunity. So the pilots at this point, we're hoping that successful pilots lead to more trials, lead to more stabilized business. So that gives you lay of the land, maybe, I'll give it to Gary to give you more of the new products in the markets that we're working on in these 2 businesses.

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

Right. Rosemarie, glad you brought it up because in Environmental Products, both areas you saw in the quarter, important is that we had a good sales turnaround. So both were in growth mode, as we kind of really have seen the change in terms of sales organization and leadership during the course of the year. The part now that comes up, especially in the Environmental Products area is the focus then into the, I guess, as you would refer to it more as in these regulation-driven end markets. That's already established in North America, by the way. Areas in terms of coal ash as -- for instance in power plants, that's a well-established area where there needs to be particular impounding of those waste streams, and we have a very high-end technology that is promising for those applications. And then we're taking that same model, importing it over to China. Now in China, if you recall, we've had, with our government marketing outreach over the last few years, tie-ins with authorities in terms of looking at where those regulations are going and having our product lines into evaluation stage with the governmental authorities that really make those decisions in China. And Doug mentioned it, riverbeds and whatnot that have these contaminated sediments that need to be essentially impounded. And really, educating the authorities there about our technologies and showing, frankly, that we've got a credible background in this area and being able to be specified in these big projects. So we're in early stages there in China on these areas, but promising in that we're able to take know-how and technology we've applied here, which has high credibility with authorities in China in making decisions. So as we -- just to go on to this year, we're expecting a bigger growth in our Specialty geocomposite clay liners that's what we refer them to in our world, very modest amount in the fourth quarter, about $1 million. We have got a pipeline going into this year that will be in excess of $20 million. Some of those have to get through decision-makers, funding, a few things like that but pretty promising in terms of what the pipeline is in those specialty areas. And then into the Building Materials area, which is -- it's been a longtime competency back to the AMCOL days and bentonite-based waterproofing, we had some very successful big projects here in the U.S. that came through at the end of last year. Our teams really surrounded those well. We refer to all of those as sort of megaprojects i.e. your wherever Amazon H2Q goes. Those kind of projects. And that's really what we're following through within -- in our bentonite-based waterproofing systems on a global scale. And so quite a pipeline as well there, as we enter the year, we're talking several hundred opportunities that are in the pipeline that are in excess of $30 million of revenue potential, just as we stand today. So that kind of rounds out. And then finally, sorry, just to finalize it. The integration of the group, and some of the areas in operational excellence that Doug mentioned before in terms of the suggestions, all the events that we do, we expect to see those synergies as well have an accretion to our profitability as the year progresses between the consolidated Performance Materials group.

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

That is very helpful. And to follow-up, is it a question of we cannot expect this kind of growth rate to be consistent quarter-over-quarter, for example, even year-over-year, it's really is going to depend on the projects that you are winning. Am I right in looking at it that way?

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

Yes, while in Performance Materials and Environmental Products, historically, we have always said, look it's kind of lumpy because you get a project, these megaprojects come in and come out. The key to this has been, really, and our strategy has been to obviously increase the size of the pipeline and doing that through new products right? New higher-value products. So we have a broader reach and a broader base of portfolio to go out and compete. That pipeline, as Gary just mentioned to you, has increased significantly over the last year. And so, our probability of bringing in projects and succeeding in winning these projects, we think, will smooth out some of that lumpiness that we have had over the past couple of quarters. So we do see a more consistent growth rate in these 2 products lines, and I think we've -- we demonstrated in 2017.

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

Okay, great. Now that is very helpful. Moving on to Refractories, is that 14.3% margin sustainable?

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

Well, that was a very solid year for that business, we mentioned, is the second-highest. I think, kind of in a stable market, yes. I think that business has put through new products with higher value. We've got some strong sales of laser equipment and some of our metallurgical wire. The challenge we have this year, Rosemarie, is, as you know, you've seen historically with raw material costs. We're not vertically integrated in magnesium oxide, which is the core raw material for our refractory products. We have, over the past several years, diversified our procurement away from just China to multiple sources to help offset. We're seeing, to give you an idea, then I'll pass it over to Brett, we are seeing some significant increases, some of our grades have doubled in price and some higher than doubled. Let me get, let Brett give you kind of a feel for what's going on in the market for MgO and steel customers.

Brett Argirakis - *Minerals Technologies Inc. - VP and MD of Minteq International Inc*

Sure. Hi, Rosemarie. Really the MgO cost increases, they were initiated in China mainly due to the environmental changes in regulations. Dependent on grade, we've seen increases grow from 1x to 3x, the prior year low points. So it is. We are going to have a challenge, but with that said, we really have been working closely with our customers to offset these increases, whether it be just by -- not just by price, but really offering alternative solutions with our high-durability products, as I think, Matt pointed out earlier, we have a new product portfolio that we have rolled out, and these products are fitting in well to offset some of these prices and give the customer an alternative to really to reduce their overall costs per ton of steel without just driving prices up.

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

So I was going to just wrap it up. Sorry, I was just going to answer your question actually. So with all that, that's the environment that we're facing. To answer your question, specifically, yes, I think these margins are sustainable. But in 2018, it is going to be a challenge, I think. We have a lot of work ahead of us to make sure that -- providing the value and passing through what we -- some of these raw material cost and pricing, that's a challenge, the business has faced it before. So I do think this level is sustainable, but we have a challenge doing it in 2018. Does that help?

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

Okay, thank you. And as I said just lastly, given the good balance sheet you currently have, any potential M&A in 2018? Are you making any progress there?

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

Well, I certainly think the balance sheet now opens up, obviously, some capital deployment options. We had always stated for the past several years, as Matt showed you the chart that free cash flow is going to be deployed toward debt reduction. We're down around our target level of leverage. And so I think now we have broader options. Acquisitions are certainly one of them. We have a share repurchase program for the next 2 years in authorization. So, we've always taken a balanced approach, as we see opportunities in acquisitions. We'll steer it there. I would give you, I guess, if I gave you a priority for our free cash flow in '18, it's probably going to be invest in ourselves. We're going to be putting capital into the company judiciously, but where we see the growth opportunities, and profitable growth opportunities. From there, acquisitions, we have a nice portfolio of opportunities, some small, some large, nothing right now the size of an AMCOL. But some nice tuck in, things that could be in the $50 million, $100 million, $300 million type revenue. Should we see those, we have some interest in steering some capital that way. And if those start to wane, and we don't see interest in those, we can, we have the share repurchase option to steer. So this year a little bit different than the past 3, stronger balance sheet, with lot more options to deploy capital.

Operator

We'll go next to Curt Siegmeyer with KeyBanc Capital Markets.

Curtis Alan Siegmeyer - *KeyBanc Capital Markets Inc., Research Division - Associate*

I know you talked about some of the challenges that you are going to face in 2018 particularly to start the year. So you have this nice slide in your deck that shows your long-term earnings CAGR since 2010, sort of in that mid-teens range. So I was just wondering if you could elaborate what you think would need to happen to kind of get back to levels similar to that, would that require some significant M&A or do you think you could approach that organically or just maybe a little bit more color there.

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

Sure. Yes, obviously, I want to highlight the -- there's 2 kind of phases to that chart. So certainly, some organic earnings growth and acquisition. So I throw it up there because I do think that this is what the capability of the company has over an 8-year period that says, look, there's some organic growth, but with the balance sheet and the cash flows we have to deploy toward capital, like share repurchase and acquisitions, those are the things you can do, we can see in this company long term. So I think it will take some acquisitions to boost where we are, but I think given our growth trajectory that we're on now, and I think, some of the markets that we have, I think we have greater confidence that we can deliver more than 3% per year and then needing an acquisition to get there. I think and I've always said that this company can grow in mid-single digits on a revenue basis consistently and that can get down to that EPS line. So 5%, 6%, 7%, EPS growth organically and then boosted by an acquisition with our balance sheet. That's something, I think, has potential, and I think it is something that has potential this year.

Curtis Alan Siegmeyer - *KeyBanc Capital Markets Inc., Research Division - Associate*

Got it. Thank you. And then I can just follow up on raws [raw materials], I apologize, if I missed it, I know you talked about some of the pressures you're facing there, can you talk about any specific pricing actions that you've taken or plan to take, maybe markets where you think pricing could offer a little bit more opportunity than some others?

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

Well, certainly, a lot of this, we -- we're going to be working on just cost-saving opportunities to offset some of this, certainly efficiencies to offset some of this, and how we use some of these raw materials, that's important. But there's no doubt we're going to have to pass this through to customers. I think, primarily, we're seeing the biggest increases, as I mentioned, in magnesium oxide, and Brett is working and his team are working to as we've historically, to move that pricing and value, we have to demonstrate the value through in refractories. I think in -- the Energy is coming through -- its -- in other -- probably Performance Minerals and our -- in our Performance Materials businesses. We are seeing higher truck-based fuel, we are seeing natural gas increases and those we are trying to pass through in a pretty competitive market in some of our products. So we are going to be pushing pricing through across the businesses. It is difficult in many instances because we are constantly fighting for share and descending in our base. So there's opportunities, primarily in refractories, but we're looking at it across the portfolio.

Operator

This does conclude the questions and answer session. At this time, I would like to turn the call back over to Ms. Buckwalter for any closing comments.

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

Great, thank you so much Ruth. That concludes today's conference call. Thank you all for joining us, and we look forward to speaking with you again very soon.

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

Thanks, everyone.

Operator

This does conclude today's conference call. Thank you for participation. You may now disconnect.
