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MTX.N - Q3 2023 Minerals Technologies Inc Earnings Call

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PRESENTATION

Operator

Good day, everyone, and welcome to the Third Quarter 2023 Minerals Technologies Earnings Call. Today's call is being recorded. At this time, I'd like to turn the call over to Lydia Kopylova, Head of Investor Relations for Minerals Technologies. Please go ahead, Ms. Kopylova.

Lydia Kopylova - *Vice President, Investor Relations*

Thank you, Melinda. Good morning, everyone, and welcome to our third quarter 2023 earnings conference call. Today's call will be led by Chairman and Chief Executive Officer, Doug Dietrich; and Chief Financial Officer, Erik Aldag. Following Doug and Erik's prepared remarks, we'll open it up to questions.

As a reminder, some of the statements made during this call may constitute forward-looking statements within the meaning of the federal securities laws. Please note the cautionary language about forward-looking statements contained in our earnings release and on this slide. Our SEC filings disclose certain risks and uncertainties, which may cause our actual results to differ materially from these forward-looking statements.

Please also note that some of our comments today refer to non-GAAP financial measures. A reconciliation to GAAP financial measures can be found in our earnings release and in appendix of this presentation, which are posted on our website.

Now I'll turn it over to Doug. Doug?

Douglas T. Dietrich - *Minerals Technologies Inc. - Chairman & CEO*

Thanks, Lydia. Good morning, everyone, and thanks for joining today.

Let me start off by giving you a quick outline for today's call. First, I'll take you through the highlights of our third quarter. And as part of this, I'll provide some commentary on the dividend increase and share repurchase program we announced last week. I also want to give you a quick update on Barretts Minerals. Then I want to spend a bit of time going a bit deeper into what drove this quarter's strong performance and why I feel it's an indication of how we've positioned ourselves for continued profit improvement. After that, I'll give an update on general business conditions and

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market trends. Erik will then review the financials and provide an outlook for the fourth quarter and we'll have plenty of time to take your questions at the end of our comments.

I'm sure you've already reviewed our third quarter earnings press release. So let's go through some of the main highlights. We had record sales for our third quarter, delivered record operating income for any quarter, significantly improved margins and increased cash flow. These results are reflective of how we've positioned ourselves strategically and how we're executing from an operating perspective. Both of our business segments are performing well. Each continues to face mixed market conditions through the quarter, but despite this, MTI achieved record third quarter sales. Let me give you some of the highlights. Within the Consumer & Specialties segment, the Household and Personal Care product lines continues to show strength with stable growth across all geographies. The main highlight being pet care sales, which increased 15% over last year, and our animal health products growth of 38% from last year as the natural feed additive market continues to develop.

In the Specialty Additives product line, paper markets in North America and Europe remained slow, although Asia paper markets were stronger and volumes improved due to our newest satellites in the region. We also saw solid performance from our Ground Calcium Carbonates products in North America. In fact, our GCC facility located in the Western U.S. had a very strong quarter, breaking production, sales and income records. In the Engineered Solutions segment, our High-Temperature Technologies product line delivered especially strong performance. North America steel and foundry markets remained stable and the China foundry market continues to improve each quarter. This business hit on all cylinders, gaining market share, maintaining pricing, capturing input cost savings and delivering a strong operating performance at production facilities. In the Environmental Infrastructure product line, wastewater treatment, environmental lining systems and drilling products had a solid quarter, though we continue to see weak activity in the commercial construction waterproofing market.

Next, EBIT margins expanded to 14.1% this quarter, a 170 basis point improvement over last year. Both segments expanded margins significantly. We captured input cost savings, improved productivities in our operations, held pricing and in many cases, continue to improve pricing and leverage our fixed cost base through disciplined spending and progress with our $10 million expense reduction program. Strong sales and expanded margins yielded $77 million of operating income, which is a record for any quarter for MTI. As we expected, cash flow is improving. Cash from operations increased 30% sequentially, and year-to-date, it has more than doubled over last year to $138 million. With the stable sales trajectory of our portfolio of businesses and the expansion of profit margins, we're confident in stronger cash flow levels going forward. Our Board shares this confidence, which is illustrated by the increase last week in our quarterly dividend from $0.05 to $0.10 and the authorization of a new $75 million share repurchase program.

Before I move on, I want to give you a brief update on where we are with Barretts Minerals. As we've discussed on these calls, over the past year, cases filed against BMI continued to increase as well as the cost to defend itself against these claims. We believe these claims to be meritless, and we have always stood by the safety of BMI's products. The reality of these soaring legal costs overwhelmed this small business. And as a result, on October 2, BMI announced that it filed for Chapter 11 protection. As a result of this, we recorded a onetime noncash impairment charge of the BMI fixed assets as well as a charge for the litigation costs associated with the bankruptcy process. In the fourth quarter, we expect to fully remove this business from our financial results. We considered several options and decided that using the bankruptcy process was the best path to protect the business, MTI and all stakeholders. This process will take time to fully resolve, and BMI will continue to operate per usual throughout. We'll be sure to update you as it progresses. We see this as a significant step in moving forward and ensuring that our corporate energy is squarely focused on achieving our 5-year growth and performance targets.

I want to take a few minutes to go a bit deeper into our quarter, not to highlight the numbers that I just did, but rather to illustrate what's behind them, what's driving them and why we're confident this will continue. Our performance this quarter is a product of several elements that are coming together, driven by our strategy and supported by a strong operating model. It starts with our top line revenue profile, made up of our resilient and stable portfolio of businesses, our ability to deploy our core technologies, combined with our ingrained culture of operational excellence and the advantage we gain through owning unique long-term global mineral reserves.

We've talked extensively about how we've now positioned ourselves in higher-growth consumer-oriented markets like Pet Care and other consumer specialties while also establishing strong positions in higher growth geographies. This quarter, the stable growth from these areas offset the slowness we experienced in other end markets like North America commercial construction and European steel. These stable growth markets give the company much more balance than it had in the past. And as our other markets recover, sales will accelerate. This is the combination that yields

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meaningfully higher long-term growth. We also outlined for you our margin expansion targets. There are 3 main areas that we see driving margins higher going forward. Improved price costs, improved mix from the natural growth in higher-margin products and our ability and discipline to leverage this growth on our fixed cost base. All 3 of these elements contributed to the margin expansion this quarter, and we see them continuing to contribute to our margin expansion going forward.

MTI's long-term growth potential, combined with expanding margins leads to increased cash flow generation. Our balance sheet is in good shape with net debt around our targeted levels. Combined with this stronger cash generation, we have ample financial resources to fund capital expenditures, pursue M&A as well as support an increased dividend and new share repurchase program. All of this is consistent with our balanced approach to capital deployment and specifically our commitment and history of returning cash to shareholders.

Let me wrap up this slide by stating that MTI has a powerful business model, one that combines revenue stability and growth potential with operating discipline, technological capabilities, vertical integration and a strong people-centered culture. This quarter is an excellent example of how those elements came together and how they will continue to provide value in the future. This is a strong quarter for us, but it had more potential. We've got a lot more gas in the tank, so to speak, and we're well on our way to meeting the financial targets we laid out for you earlier this year.

Okay, before I pass it on to Erik, let me take you through our markets and what we're seeing. Overall, our market outlook remains similar to what we shared last quarter with the exception that we're entering some seasonal periods for a few of our markets. Let's start with the Consumer & Specialties segment. Overall, we're seeing continued strong market conditions across our Household and Personal Care markets. There are several near-term and long-term trends that are driving this strength. pet care is entering its seasonally strong period in both North America and Europe over the next 2 quarters. But more broadly, we continue to see positive demand trends for both private label cat litter in the U.S. as well as premium offerings in Europe, which is where we're positioned in each market. Further, we see continued demand growth in the Asia pet litter market, and we're well positioned to capture this with our mining and production locations. We also expect other HPC markets, including edible oils, renewable diesel, animal health and personal care to also remain on their stable growth path in the fourth quarter and through 2024. In Specialty Additives, our market outlook remains positive.

Though Q4 is typically a seasonally slower period for residential construction, we expect gradual improvement in the North American paper market. Looking into next year, we will see a boost in volumes from the 3 paper and packaging satellite ramp-ups that are taking place in Asia right now. We also have a solid pipeline of new packaging business opportunities asas we continue our growth and transition into this market adjacency.

As we look at the Engineered Solutions markets, we see more mixed conditions. In High-Temperature Technologies, we have a generally positive outlook for both the steel and foundry markets. We see continued stable conditions for our foundry and steel products in North America and a continued gradual improvement for the foundry market in China. We've signed several long-term contracts for our laser and refractory application equipment. And as a number of these come online next year, it will help drive volumes and sales higher.

Moving to Environmental & Infrastructure. We have a mixed and more cautious view on these end markets. The market for our environmental lining systems as well as major remediation projects tend to slow in Q4 and Q1. We also don't expect to see any improvement in the commercial construction waterproofing market, which has been slow all year. The positive side, infrastructure drilling and environmental wastewater market should remain solid throughout the quarter.

Looking further out, our team has been making great strides and gaining attention for our FLUORO-SORB adsorbent technology for PFAS remediation. The business currently has over 200 active pilots and trials and we recently presented our technology and unique capabilities at the Gabelli PFAS symposium. This presentation is available on our website if you're interested to learn more.

In summary, we see relatively strong markets for us as we head into the end of the year. More so, we've built strong momentum across all product lines, which sets us up for another strong year in 2024.

Now let me turn it over to Erik to review our financials in more detail. Erik?

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Erik C. Aldag - *Minerals Technologies Inc. - Senior VP of Finance & Treasury and CFO*

Thanks, Doug, and good morning, everyone.

I'll start by reviewing our third quarter performance, and I'll also provide our outlook for the fourth quarter. Following my remarks, we'll turn the call over for questions.

Now let's review our third quarter results. Let me start by saying we had a strong third quarter marked by records for adjusted operating income and EBITDA, significant margin improvement and higher cash flow. Overall sales were $548 million, similar to both the prior quarter and prior year. You can see in the bridge on the top right that 2 of our product lines grew sales and 2 were lower, reflecting the mixed market conditions we are experiencing this year. This bridge is a good representation of the benefit that our higher-growth consumer-oriented products are having on the overall portfolio, providing stability and growth when other markets aren't as strong. And we are leveraging our sales into significantly higher earnings across both segments.

Operating income, excluding special items, increased 15% versus last year and improved 9% sequentially to $77 million, a record result for MTI. And we remain on track to deliver our targeted margin improvement. Operating margin improved to 14.1% of sales in the third quarter. This result was 170 basis points above last year and 130 basis points higher sequentially, driven by the combination of price/cost recovery, productivity improvements and favourable mix from the growth of higher-margin specialty products. Adjusted EBITDA was $102 million in the quarter and represented 18.6% of sales. It's worth noting that this was the first time that the company has generated quarterly EBITDA above $100 million.

Our reported results included 2 special items in the quarter. The largest of the 2 was a noncash $72 million impairment of all the fixed assets within Barretts Minerals Inc. The second special item was a $13 million charge for litigation costs also related to BMI and its filing for bankruptcy protection. EPS excluding special items was $1.49. To give you some perspective, on the lower left, we've included our third quarter EPS trends over the last 5 years, which shows a 9% compound annual growth rate since 2019. And our third quarter EPS even includes $0.10 of higher interest expense versus last year. This EPS growth trend might not be so apparent given the significant dynamics at play over the last several years.

Now I'll review the performance of our 2 segments, beginning with Consumer & Specialties. Sales in the Consumer & Specialties segment were $291 million, 2% above last year and similar to the second quarter. Sales in the Household and Personal Care product line were 9% higher than last year and 3% higher sequentially. Growth in pet care remained strong with sales up 15%. And sales across the other specialty consumer markets in this product line were 8% higher sequentially. Sales in the Specialty Additives product line were 2% lower than last year. While North American paper production improved from the second quarter, demand remained below prior year levels in both North America and Europe. Meanwhile, volumes in Asia improved year-over-year, driven in part due to the ramp-up of our new satellite facility. In residential construction, market conditions remained mixed with steady demand for our products that are used in remodelling activity, helping to offset the impact of fewer new builds.

Adjusted operating income for the segment increased 23% year-over-year to $38 million, and operating margin was higher by 230 basis points, primarily driven by price/cost recovery. Looking to the fourth quarter, we expect continued strength from Household and Personal Care driven by strong pet care sales and continued gradual improvement in other specialty consumer products. In Specialty Additives, we expect typical seasonality in construction, partially offset by continued improvement in paper production in North America and additional volume from our new satellites in Asia. In total, we expect operating income for the segment to be around $33 million in the fourth quarter. Note that this guidance reflects the deconsolidation of BMI, which means BMI's revenue and profit will be excluded from MTI's results going forward beginning in the fourth quarter.

Now let's turn to the Engineered Solutions segment. Third quarter sales in the Engineered Solutions segment were $257 million, similar to the prior year. In High-Temperature Technologies, sales were 1% higher than last year as demand for steel and foundry products in North America remained strong, and we continue to grow foundry volumes in China. In Environmental & Infrastructure, sales were 2% lower than the prior year as commercial construction activity remained slow. Sales for drilling, wastewater and remediation applications continue to grow, including the completion of another PFAS remediation project using our FLUORO-SORB technology, this one at a U.S. Department of Defense location.

Third quarter operating income for the segment was $41 million, 12% above last year. Price/cost recovery and solid execution drove operating margin expansion in the quarter, which was 15.8% of sales, an improvement of 160 basis points. Looking ahead to the fourth quarter, for

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High-Temperature Technologies, we expect continued strong demand in North America, and we expect conditions in Europe to remain similar sequentially. In Asia, we anticipate the growth trend in China foundry volumes will continue. In addition, we expect to see a benefit from higher laser measurement equipment sales. And finally, in the Environmental & Infrastructure product line, sales will be lower sequentially as we enter the seasonally slow period for environmental and construction projects. In total for the segment, we expect operating income will be approximately $35 million in the fourth quarter. Our guidance includes some limited impact from the UAW strike, and we are continuing to monitor the situation.

Now let's turn to our balance sheet and cash flow highlights. Cash flow accelerated in the third quarter as we expected, bringing year-to-date cash from operations to $138 million, more than double the same period last year. Capital expenditures were $25 million in the quarter, bringing the year-to-date total to $71 million, and year-to-date free cash flow was $67 million. For the full year, we continue to expect free cash flow between $100 million and $125 million. Our balance sheet remains very strong. Total liquidity at the end of the third quarter was $458 million, and net leverage improved to 2.2x EBITDA. With leverage approaching our target of 2x EBITDA and cash flow continuing to improve, we are well positioned to maintain our balanced approach to capital allocation, which includes returning capital to shareholders through our dividend and repurchase program.

Now I'll come around our outlook for the fourth quarter. Overall, for MTI, we expect another solid performance in the fourth quarter. In the Consumer & Specialties segment, we expect continued strong demand from the Household and Personal Care product line and in pet care, in particular. In Specialty Additives, higher sales into the paper and packaging market driven by our new satellites and gradual improvement in North America production rates will be offset by seasonally lower construction activity as well as the deconsolidation of BMI from MTI's results. In the Engineered Solutions segment, we expect continued strength in High-Temperature Technologies, driven by higher laser measurement equipment sales and growing Asia foundry volumes. Meanwhile, Environmental & Infrastructure will experience typical seasonality. As we currently sit, we see fourth quarter operating income between $65 million and $70 million and earnings per share between $1.20 and $1.30. This guidance represents a continuation of the company's earnings growth trajectory. And despite the mixed markets we've experienced this year, this guidance equates to full year operating income growth of approximately 10% and full year EPS growth of 5% to 7%. In addition, we expect the fourth quarter to be our strongest cash flow quarter of the year. As Doug highlighted earlier, the key elements of MTI's business model were on full display this quarter. And this powerful combination of growth, stability, margin improvement and cash flow generation will continue to drive our performance going forward.

With that, I'll turn the call over for questions.

QUESTIONS AND ANSWERS

Operator

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

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

Congrats on strong execution and margin improvement. Maybe start with, Erik, if you could give us a sense for, obviously, you've made strong pricing gains kind of volume versus price across both Consumer & Specialties as well as Engineered Solutions and how long you expect the pricing to remain a tailwind?

Erik C. Aldag - *Minerals Technologies Inc. - Senior VP of Finance & Treasury and CFO*

Sure, Dan. So yes, so we had positive pricing in the quarter and that positive price/cost recovery contributed to a lot of the margin improvement that you saw particularly this quarter. And that's happening across both of the segments, more so in the Consumer & Specialties. I think when you go back to last year to 2022, as a company, we'd absorbed something like 150 basis points of margin from being upside down on price versus inflation. And this year, we set out to recover all of that 150 basis points through pricing. And so that's what gets you to what we've stated previously

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as kind of a run rate averaging of 13.5% operating margin by the end of this year. And so we're on track for that. So we're achieving what we said we would do and more so the price/cost recovery is coming to a greater extent in the Consumer & Specialties segment. But the overall pricing impact, it's much less than it has been in the first half as we've lapped some of our significant pricing actions from the third quarter last year. So now we're seeing the pricing in the low single-digit kind of range in terms of an impact on our top line.

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

Very helpful. And you just talked about getting to that 13.5% adjusted operating margin, exceeded 14% this quarter in a relatively tepid demand environment, at least for across some of your businesses. And I realize this is a seasonally stronger quarter we just exited, but your longer-term goal of 15%. Do you see that as being potentially somewhat conservative, if not maybe the timing than kind of the [apps].

Douglas T. Dietrich - *Minerals Technologies Inc. - Chairman & CEO*

Maybe I'll jump in that one, Dan. This is Doug. Look, I think we've set out a target of 15% by 2025. Yes, you are looking at a seasonally stronger quarter, but I do think it is representative of kind of the potential. We knew that we'd start to capture cost, deflation, we'd start to see those playing over. And we see that the pricing and the value of our products in the market continues to hold. And I think you'll start to see, you're seeing that through our gross margins as well. We've done a great job selling on value. We are a long time stable supplier because we own our unique mineral reserves. I think customers see that, and that enables us to make sure that we're getting the value for our products. And I think as you see the consumer business continue to improve, we continue to improve in pet care. You're starting to see the growth in those higher-margin specialty products, which are also higher growth. That's part of that margin expansion. Yes, I think we can push through that 14%, 15% margin. I think further, though, it's going to take that stable growth profile and leveraging our fixed and also getting those new innovative products in those specialty products out on market. Those are higher-margin products. Those are a year, 2 years out. And I think, yes, there's the potential to get past 15%, but we're laser focused on delivering that 15% like we told you by 2025. So start there.

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

Very helpful. Maybe one and a half more and I'll jump out, but clearly the Talc litigation despite the announced bankruptcy remains front and center in some investors' minds, is there anything you can tell us about where we are in the process, what the next steps would be? And maybe just taking a step back, why taking the route of bankruptcy in your mind, should bring sense to liability and protect MTX if you look at comparable cases, and I know there's no apples-to-apples, but maybe whether it be asbestos or others, it hadn't accomplished that sort of full ring fencing from the parent. So any update there would be really helpful. I appreciate it, Doug.

Douglas T. Dietrich - *Minerals Technologies Inc. - Chairman & CEO*

Yes, as we mentioned, each of these processes are different, and they have different dynamics. We looked at different scenarios. We've made sure we really understood what was happening in the landscape. As I mentioned in my comments, just the case load that BMI was being pulled into kind of this tort we feel, just kind of overwhelmed the business. And so we felt that, look, the best way path forward for BMI, for MTI and again, all stakeholders, including shareholders, was to seek the bankruptcy protection, and that puts it in a very well-defined structured and transparent process. There are a number of dynamics that are going to have to be worked through. So it's really hard to give you at this point in time, a time frame or how that will play out. It's just right at the beginning of it. I think the next major milestone will be to selling off the assets, the BMI assets. and using that to fund the trust. And once we're through that, we'll probably have a better idea of kind of how this is going to play out and the time frame. So right now, it's a bit premature to give you how it will play out, but it is designed to make sure that we ring-fence and protect the company and take the steps to protect MTI through the process, and that's what we've done.

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

All right. Lastly, as you mentioned the 2025, you have the longer-term targets a couple of times in the prepared remarks. So is it fair to say that the removal of talc doesn't have any impact on those targets in your mind?

Douglas T. Dietrich - *Minerals Technologies Inc. - Chairman & CEO*

No, I think BMI was a $50 million business. So it will have an impact, and we're going to probably have to call out the difference in year-over-year comparisons to next year with the profit and the sales out. So we'll do that. But no, I don't think that, that changes things. I think the potential growth that we have in front of us across the board will offset that. And I don't think on the scale of being a target of running at an average of 5% growth over the next 5 years, kind of a $2.6 billion, $2.7 billion revenue target, $50 million is going to make a big difference. So we will be giving you some comparisons for the next couple of quarters, so you have it bridged right. But no, I don't think that's going to change meaningfully our target growth.

Operator

(Operator Instructions) And we go next to the line of Mike Harrison with Seaport Research Partners.

Michael Joseph Harrison - *Seaport Research Partners - MD & Senior Chemicals Analyst*

Congratulations on a strong quarter. I had a question on the household business. One of the main players in that pet care space had a cyber attack last quarter. It led to some significant product shortages. We understand that, that dynamic has led many pet owners to switch to a different brand. Can you talk at all about what impact that event may be having on your pet care business? And have you seen any acceleration in consumers switching to private label brands?

Douglas T. Dietrich - *Minerals Technologies Inc. - Chairman & CEO*

Yes. Let me take that. We noted that issue that occurred this past quarter. And we did see a little bit of an uptick in order volume to make up for that. I won't say it's substantial, and I think most likely some temporary. But I think the longer term, you're right. I think we're well positioned to supply the private labels in North America. We've built that position through a couple of acquisitions, as you know. And yes, we're seeing that as the category grows, pet litter grows in North America, the category of private label is growing a bit faster than the average. And so with our locations, with our mining assets and kind of being that private label provider, that's what's driving the growth in North America. And yes, we benefited a bit from folks looking for private label brands when a branded product has some trouble. But I think that's temporary.

Michael Joseph Harrison - *Seaport Research Partners - MD & Senior Chemicals Analyst*

Okay. So you don't envision that there's going to be some permanent switching. I guess I think of cat litter is something that consumers try to stick with one brand. And if something becomes unavailable, that would maybe ignite a switch that could end up being more permanent. You don't see that happening?

Douglas T. Dietrich - *Minerals Technologies Inc. - Chairman & CEO*

Yes, I agree with you, there is some brand loyalty, and I understand that when a brand has a hiccup, that might affect loyalty. So I guess I'm answering the question as we benefited a little bit from that this quarter and that volume because it wasn't available on the shelf. It remains to be seen whether that's going to be sticky. But I will tell you that in general, outside of just one instance like that, in general, I think the demand for private label is outgrowing the demand for other. And I think that is a long-term trend regardless of the one unfortunate incident that happened to a company. I think that's a long-term trend that's going to benefit our base growth rate going forward. Can I answer it that way?

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Michael Joseph Harrison - *Seaport Research Partners - MD & Senior Chemicals Analyst*

Yes. No, that's fine. And then just quickly, where do you guys think we are in terms of realizing the $10 million worth of cost actions? Are we still pretty early in that process? Or do you have kind of a run rate of where we were as of the end of the third quarter?

Erik C. Aldag - *Minerals Technologies Inc. - Senior VP of Finance & Treasury and CFO*

Yes, Mike, this is Erik. We're about 2/3 of the way through from a savings perspective through the third quarter on a run rate basis...

Douglas T. Dietrich - *Minerals Technologies Inc. - Chairman & CEO*

Mike, we get the full run rate by the beginning of next year, first half of next year. So we're well on track with that with those savings.

Michael Joseph Harrison - *Seaport Research Partners - MD & Senior Chemicals Analyst*

Perfect. Okay. And then a couple of questions for me on capital allocation. With the increase in your dividend, just curious, is that expected to just be the new rate going forward, $0.10 a quarter? Or is the Board considering future increases maybe in line with earnings growth? Maybe any comments you could provide on the new approach to dividend policy and other returns to shareholders.

Douglas T. Dietrich - *Minerals Technologies Inc. - Chairman & CEO*

So yes, that is a permanent $0.05 increase to the quarterly dividend to $0.10. I do think that as we go forward, the Board is going to continue to look at how we allocate that capital. As you know, we've preferred using share repurchases because there's some flexibility that gives us the opportunity to make sure that as M&A comes up, we're able to steer capital to if something is one of the higher what we think a higher value use for that cash. And so I think the Board will continue to look at dividend policy going forward. But where we are now is that $0.05 increase and that is a permanent increase. So the Board will look at dividend increases going forward, but that's where we are for right now.

Michael Joseph Harrison - *Seaport Research Partners - MD & Senior Chemicals Analyst*

All right. And then in terms of M&A, just kind of curious, you guys did a transformative deal back in 2014 when you acquired AMCOL and you were looking at another major deal a few years ago. Just wondering if you can provide some updated thoughts on your appetite for a larger or more transformative deal. What criteria would it need to meet? And how much would you be willing to lever up the balance sheet versus that 2.0x net debt-to-EBITDA target leverage in order to complete a larger transaction?

Douglas T. Dietrich - *Minerals Technologies Inc. - Chairman & CEO*

So let me start by answering this. So we have M&A as a stated part of our growth strategy. We've demonstrated that through kind of 4 bolt-on acquisitions over the past 4 probably going on now 5 years. So we see that as an opportunity to pull in valuable pieces and as I said, build positions that make sense for the company. And in each of our product lines, I'll also note the 4 product lines, we have both good organic opportunities that we have capital to fund and each of them have some inorganic opportunities. And so it's set up that way. And so we're going to look at that going forward. And I think there's a nice pipeline in each of the product lines for some additional bolt-ons to help continue and actually accelerate some of the growth targets that we've given you in the past. As far as a transformative acquisition, there are some of those in our portfolio that we're looking at. But those are things that we look at on a number of different elements. And so how much we're willing to lever up depends on the environment, what we see, the synergies available to it, where we are in our capital markets environment and the risks associated with it as we go forward. I would say where we were with AMCOL, let's say, 4.5x before. I would think that our leverage targets would probably be lower than that. But I will say when we go into these deals in the past, we would look at them from all angles and making sure that both risks are understood, that

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the cash flow was understood, that the synergies are very well understood and that the debt paydown happens very rapidly. And I think we demonstrated that and our ability to delever with the AMCOL transaction. I think anything we would do of size would have that same type profile. We would look at it. It's risks, first and foremost, the benefit to the company, the value created and the rapid debt paydown. That's how we look at these. So I can't answer how high we'd go. It really depends on the target and what we see at the time.

Operator

Our next question or comment comes from the line of Steve Ferazani with Sidoti & Company.

Alex Hantman - *Sidoti & Company, LLC - Executive Officer*

This is Alex Hantman on for Steve. My first question is around the buyback. Given the sizable buyback announcement, is there still room to reduce debt? And generally, how do you prioritize share repurchases and debt reduction?

Douglas T. Dietrich - *Minerals Technologies Inc. - Chairman & CEO*

Sure. So our kind of the policy and the way we look at our capital allocation is we look at free cash flow, which is typically around $150 million a year kind of average, and we see that continuing to grow with our growth and profit expansion. Over history, we typically allocate about 50% of that back to shareholders and typically in the form of a share repurchase program. And so at this point in time, a dividend increase, plus the $75 million share repurchase program is around half of that kind of free cash flow. But that still gives us half of that free cash flow to be able to delever. And again, we usually look at this kind of capital allocation when we're at our target leverage, which is around 2x. So if we have an acquisition in the past year, we've been up around 2.8x, 3x, we're going to look to make sure that we get the balance sheet back down to around 2. Free cash flow then gets steered towards shareholders. And usually with share repurchases. So we have the flexibility if an M&A transaction that's sizable comes around. So yes, the answer to your question is we have sufficient capital, and we see sufficient capital going forward for both the dividend increase for the share repurchase, the 1-year share repurchase and reserving capital to both put to debt reduction or on the balance sheet for potential bolt-on M&A. I think that's the flexibility that we're trying to describe. With our stable sales, with our expanding margins, it's a company that generates, we've historically generated 7% cash conversion to sales, and that type of capital gives us a lot of options. It gives us a lot of flexibility, keep the balance sheet in good shape and return to shareholders.

Alex Hantman - *Sidoti & Company, LLC - Executive Officer*

I appreciate the color there. And speaking of capital allocation, given the sizable opportunities you've laid out previously in PFAS remediation that we've talked about today, do you expect significant additional investments in the business?

Douglas T. Dietrich - *Minerals Technologies Inc. - Chairman & CEO*

Yes, organic investments. So we are continuing to invest, if I answer your question, if I understood it properly, we invest in R&D. We've got a sizable pipeline of new products. We've gone back to talk about how we've increased the revenue from new products that we're making investments in. We used to be around 5% of sales. We're now approaching 12%, 13%, 14% of sales. We'll get you a number. This year we've accelerated the new product development. We've cut the time in half to bring them to market, and we've doubled the impact. $300 million of our sales are coming from new products each year, and that was much less than half about 5 years ago. So we are investing in new technologies. We're investing in new technologies that yield higher-margin products. We're working very closely with customers to build what we call road maps. And so looking out 4, 5 years with them and seeing what their needs are and building new products and technology road maps with our customers that guides what goes into our innovation. And then yes, we're investing in our plants to make sure that we have sufficient capacity to make those products. But that all is coming through our normal capital expenditure program. That's about 4% of our sales. And yet we still, your previous question, have excess capital on free cash flow after that to be able to keep the balance sheet straight and return to shareholders. So yes, we are investing in many ways in ourselves. And we think we find that investing in ourselves as one of the best investments, to be honest with you.

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Alex Hantman - *Sidoti & Company, LLC - Executive Officer*

Absolutely. And just one quick clarification on that. I had meant to focus a little bit more specifically on PFAS remediation and some of the additional investments you might have in that line of business.

Douglas T. Dietrich - *Minerals Technologies Inc. - Chairman & CEO*

Yes. So in part of that Environmental & Infrastructure is a host of water remediation technologies. There are a host of environmental type technologies. We laid this out. Hopefully, you've had a chance to look at our Investor Day, from groundwater remediation in slurry wall to sediment capping to wastewater remediation and even drinking water remediation. And so we have a number of new technologies, and we have plenty of capacity currently installed to be able to ramp up to satisfy areas like PFAS remediation. And we also have targets to be able to invest to make sure in new capacity to make sure we cover that. So look, it's a slow ramp, but we're keeping an eye on it. We understand the capacities of our plant, the capabilities and the technologies and certainly willing to invest when we see the inflection points for PFAS specifically going forward.

Alex Hantman - *Sidoti & Company, LLC - Executive Officer*

Perfect. Very helpful. And last question for me, just to round it out. We've discussed a growing mix of industrial and consumer technologies for everyday life. Can you talk about how you evaluate the existing product portfolio and any opportunities you might see for pruning?

Douglas T. Dietrich - *Minerals Technologies Inc. - Chairman & CEO*

Well, I think we've been building in the consumer business. And I think there's continued investment in broadening that portfolio or at least strengthening that portfolio of product lines. We see a lot of growth potential in a number of them like in our filtration business, which goes into edible oil purification and biodiesel and animal health, personal care, pet care. So those I think we're going to continue to build. There are other areas that we'll look at that if they don't have the growth potential or if we don't see that the contribution or the capital allocation to those we would consider pruning. So we do go through the process of looking at our portfolio and making sure that we're steering that capital to the ones that are going to yield the highest value and highest growth and highest profits. And we will consider taking steps for those that don't.

Operator

(Operator Instructions) We'll take our next question from David Silver with CL King.

David Cyrus Silver - *CL King & Associates, Inc., Research Division - Senior MD & Director of Equity Research*

I think my first question, so I'll ask a few questions and they're all going to be somewhat related to the idea that revenues were up smidgen year-over-year, but the operating income and the margins had improved disproportionately. First thing I'd like to ask you about is maybe if you could highlight the trends in Asia and your Asian activities, in particular, so I guess, foundry and PCC amongst them. But is it fair to say that those businesses are still trending, let's say, below your earlier levels, but they've probably improved sequentially through this year. And then if that is the case, I mean, how close would you say they are to, let's say, being fully recovered in your mind?

Douglas T. Dietrich - *Minerals Technologies Inc. - Chairman & CEO*

So David, is your question specifically around Asia across the board? Or is it just kind of the question on mix of ups and down. I just want to make sure I answer it correctly.

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David Cyrus Silver - *CL King & Associates, Inc., Research Division - Senior MD & Director of Equity Research*

I'm sorry, I wasn't very precise. But I'm thinking about trends in China and then the balance of Asia, I guess, including India, outside of China. But your longer-term growth programs there have been somewhat disturbed, I guess, or moved, the environment has changed over the last couple of years. But just thinking about how the trend has been sequentially and how close are you back to, let's say, where you were a year or 2 ago?

Douglas T. Dietrich - *Minerals Technologies Inc. - Chairman & CEO*

I'm going to set this up, and then I'll probably give it to Brett and D.J. to talk about their specific businesses in the market in China. Where the market is today is different from where we are, right? So the market, I think, in general, in 2 different markets, our major markets in China would be paper and packaging and our foundry market. We are in a different place than where that market may be. And I think the market is probably back to where it was pre-COVID levels or somewhere in there, but we're well ahead of that in many of them. And that's true in both of those businesses. And that's due to the penetration that we see as we've been driving through the market. So even though the demand levels may be back to pre-COVID levels or a little bit further, we've continued to grow. W've continued to grow with our products. We've continued to grow into packaging. We've been continuing to grow in our blended products business. So we're doing well. And even if the market hasn't grown at its normal rates over the past 2 to 3 years. So let me start with DJ. Maybe give some color on paper and packaging and where we are in China and India versus the market.

D. J. Monagle - *Minerals Technologies Inc. - Group President of Consumer & Specialties*

Certainly. Look, as we've been saying, our growth story for Asia on the paper side is penetration and the introduction of new products. So what you're seeing in this quarter's results is good growth on the sales, good growth on the volumes, good growth and contributing on the overall income. On top of that, as we look at the immediate trajectory, we've been sharing with everyone our growth plans. And just this last quarter, we did start up one of the new satellites in India. And then next quarter, even as I speak, we're ramping up a couple of the satellites in China. Included in those satellites, one is a major piece that goes into packaging. It's a new product offering, GCC. So that's just coming online now. We had talked last quarter about the fact that one of those satellites, the one in India was also the New Yield offering. And then on top of that, as we go into the next quarter, early part of 2024, we've got yet another new satellite coming on in China. So the growth you're seeing is all about the penetration that we've been working up to, and there's more growth to come from just that penetration and the introduction of new products. So we're in a pretty good spot in Asia.

Douglas T. Dietrich - *Minerals Technologies Inc. - Chairman & CEO*

And Brett, do you want to talk about the foundry market?

Brett Argirakis - *Minteq International Inc. - MD*

Sure, Doug. David, look, historically, green sand bonds have been split about 50-50 between Asia and North America. And of course, in Asia, China makes up the bulk of that. As the China market continues to recover, our green sand bond business has shown continuous improvement quarter-on-quarter. In fact, we're probably 7% or 8%. We've seen 7% or 8% growth year-on-year. But it does have a bit more room to go to hit its peak levels from 2021. We do expect the fourth quarter to remain similar with maybe a little bit more growth. So we definitely have some room, and we're working on the 2024 plan now. So we also expect to see some modest improvement for next year or 2. So I think we're in a good position, and we definitely have growth potential, especially in China.

David Cyrus Silver - *CL King & Associates, Inc., Research Division - Senior MD & Director of Equity Research*

Okay. Great. I appreciate it. Doug, this is more of a question maybe about pricing. So over the past year or 2, your company has been pushing for price maybe to offset higher costs and cost inflation in general and some special situations. But I'm guessing, but I'm thinking that we're kind of in

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a slightly different environment right now. And Doug, I'm going to quote you here, but you always talk about pricing for value. And I guess without as much of a tailwind in a cost inflationary environment, I mean, how important would you say incrementally getting price is to hitting those 2025 targets? And then, in particular, what are the prospects for your portfolio or if you want to call out 1 or 2 areas. But what would you say are the prospects for getting incremental pricing even on your best valued products, best value proposition products in, let's say, the current kind of mixed environment?

Douglas T. Dietrich - *Minerals Technologies Inc. - Chairman & CEO*

Yes, you took my answer off the table, you say we price on value. But David, I guess there is still room to go, and I think there always has been. I guess I'll go back and say we've always had price increases. We've always looked to price our products appropriately to the value that they deliver and that our products get the fair share of that value with our customers. And I think over the long term and with our relations with customers, that gets to a really good spot. And I think some of the products that we're developing and designing deserve higher margins. They will be higher margins out there in the marketplace. So we've always gotten pricing for our products. It just looked like the only reason we were pricing in the past 2 years is to catch up on inflation. So yes, we had to make sure that we were pushing through the costs that we're absorbing to get that price. But I think now we're back into a place where there is that normal type value-driven pricing that will happen. And there's still elements like labor inflation and energy and we'll make sure that we get through and capture that. But we're always going to price our products based on the value they deliver. I think that it's not necessary for us - that incremental pricing isn't the lever that's going to get us to 15%. I think there's other structural elements that I've kind of outlined that will help that. Having a company that has more balanced kind of growth profile. So slower in times when markets are weak, but then when they start to line up, that stable growth of our consumer products mixed with the cycle that goes kind of up and down in some of our other markets will provide a stable level of revenue growth. And that growth comes with higher margin products and our ability, our operating model as a company to be able to hold fixed costs. We've got lots of capacity in our plants. We've got a great operating model and operational excellence to squeeze more productivity and push product through. We're always working at ways to find waste in our systems, our business systems and in our manufacturing processes. We held 9,000 Kaizen events, we're on track, almost 10,000 Kaizen events this year looking for ways to remove waste. So that model provides a really good way to hold fixed costs to get high asset utilization and hold down necessary expansion CapEx.

Those elements, not just pricing alone or incremental pricing, it's those 3 things that are going to really drive margins higher as we leverage that base as those higher-margin products take hold. And yes, some incremental pricing on some other things. But it's a combination of things. And I don't think that pricing, it's going to be an element, but I don't think it's going to be -- it's the only driver we need to get to our margins. I think we're well on track with kind of just the way the company is structured to get there on its own.

David Cyrus Silver - *CL King & Associates, Inc., Research Division - Senior MD & Director of Equity Research*

Okay. And then just one last one, maybe for D.J. But I typically focus on PCC, but I heard today in the opening remarks about a record performance in your GCC unit. And I'm assuming that's not related to the China project that that's separate. But what would you cite for the record performance in GCC and of course, just what's the outlook for continued growth in that unit in that product in 2024?

D. J. Monagle - *Minerals Technologies Inc. - Group President of Consumer & Specialties*

So David, that particular unit serves as GCC into non-paper applications. Doug was highlighting it on the West Coast, it's more specifically, it's our operation in Lucerne Valley, California. And what we are seeing there is that complement of products is well situated for the demand in California right now, which is balanced between the do-it-yourself sort of improvements, a little bit with new startups, not so much that we saw this time, but it's going into things like roofing, into tile flooring and into glass and those elements. So that's certainly helping on the demand part. What we also were just trying to highlight for that team that they've been really extraordinary implementing all those elements to which Doug was just referring on OE. A lot of engagement from the employees looking for ways to leverage those assets, debottleneck at a relatively low cost and become better at serving our customers faster. They've also been on the leading edge of implementing some of our sustainability improvements, like things like changing from diesel into biofuel and just staying one step ahead of the trends and which has put them in a good position. So a

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very strong record. You say, how does that look going forward? I can't tell you it's going to be a record every quarter, David. I'm just telling that they have gotten to a new place, and it's a good place to be, and we're pretty proud.

Douglas T. Dietrich - *Minerals Technologies Inc. - Chairman & CEO*

David, I appreciate you asking the question. And I put it in my beach because of that reason. I wanted to highlight that in a challenging market like residential construction, we can push through and make great results. And that business has been doing this. That one facility is a great example of our ability to really work as a team deliver higher levels of productivity, throughput and be able to take on higher levels of sales and utilize those assets. And so that's why we've got 3 records from that facility. I just want to say congratulations to them.

David Cyrus Silver - *CL King & Associates, Inc., Research Division - Senior MD & Director of Equity Research*

Yes. I did think that, that GCC was tied to construction, which made me scratch my head. But I did err, I thought that was for GCC as a whole and not just a specific facility. Anyway, I'll stop there.

Operator

At this time, I'd like to turn the call back to Mr. Dietrich for any closing remarks.

Douglas T. Dietrich - *Minerals Technologies Inc. - Chairman & CEO*

Thanks, Melinda. I appreciate that. Thank you to everyone who joined today. I appreciate you listening in. I appreciate the questions. Looking forward to a strong fourth quarter, and we'll be back talking to you, I think, end of January. I think the date is. Thank you very much.

Operator

Thank you. This does conclude today's teleconference. We thank you for your participation. You may disconnect your lines at this time.

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