CL King Best Ideas Conference ***(Raw version)***

Event Details

Date: 2024-09-16
Company: Minerals Technologies, Inc.
Ticker: MTX-US

Company Participants

Douglas Dietrich, Erik Aldag, Lydia Kopylova

MANAGEMENT DISCUSSION SECTION

David Silver, CL King

Okay. Good morning, everyone and thank you for joining the Best Ideas Conference here at CL King. I'm David Silver, Senior Managing Director, Director of Research and we're very pleased to have the management team from Minerals Technologies. The -- I'll do a brief introduction, but Doug Dietrich is the Chairman and CEO of Minerals Technologies. The CFO is Erik Aldag and Lydia Kopylova is Vice President of Investor Relations.

The format, I'm -- the company will make some opening remarks. I'll follow with a series of questions. To ask questions, please use the box on your screen if you prefer high level of -- if you want to be anonymous, you can send me a question via email at dsilver@clking -- dsilver@clking.com.

Okay. With that, I'm going to turn the floor over to Doug, Erik and Lydia for their opening remarks.

Douglas Dietrich

Well, David, thanks for having us. It's always a great conference to join. So I appreciate being one of your -- hopefully one of your best ideas. But we only have -- I think we only have a half an hour. So just not much to add other than I hope we just dive right into some questions that you might have or that folks in the audience.

QUESTION AND ANSWER SECTION

Question – David Silver: That's perfectly fine. I'm happy to do that. So first I would just like an update if we could get an update on current business conditions and the demand in your key end markets. So your second quarter was a record one for your company in many respects, with good growth in personal care and pet litter and continued strength in refractories as well as PCC. And that's all achieved within a less than robust industrial demand environment in my, you know, in my view, in the US and Europe as well as a less than robust China recovery in China. Can you just update on your expectations for end market demand and the pricing trends, let's say for the second half of this year?

Answer – Douglas Dietrich: Sure. Well, you mentioned the record second quarter and I think in my comments when we reported those results, that's not just kind of a one-off. It's a -- that's a number of years in coming in terms of building our strategy, kind of how the company is reflected right now in its consumer oriented side and its -- and its industrial, more industrial side. It provides a level of growth and higher levels of profitability as we built these segments and developed them organically and inorganically over the past four years.

So I think the second quarter was a good example of the power of what we've pulled together, in terms of higher margins, leveraging our fixed costs and a more stable growth profile. That said, there's still is, you know, an industrial side of the business with leading positions around the world and metal -- high-temperature technologies like metal casting, steel refractories and in infrastructure and environmental businesses, which do have some cyclicality to them still.

But the general trend is, you know, it might still be up, our sales may be up and down and up and down. It's more up and down on a trajectory instead of more flat up and down. This consumer business is creating more stable long-term growth for the company. And I think that's what you saw in the second quarter. We had really strong growth from the consumer side and we had some weaker positions in commercial construction, even residential construction was stable, but much lower than it was in past years. And so despite that, you still have this kind of higher margin leveraging our fixed costs, using the growth that's being provided on the consumer side.

Going to the third quarter, we mentioned on the call that things looked a little, I guess, squishier. There were a little less solid in terms of the industrial activity than we saw in the first half. I think we highlighted that and not only continued softness in commercial construction, automotive was stable, but we were starting to see some weaknesses in the more industrial products from steel and also agricultural. The ag market, which I think everyone seen which affects our metal casting. So mostly in high-temperature technologies.

Yeah, I would tell you that third quarter is probably going to -- it has with what you've seen in the market with industrial activity, weakening and it's been softer, it's definitely going to be one of the more softer quarters. But I think we projected that on our last call. Despite that, we've got some real positive activity on the consumer side and that's the balance that we always talk about in our portfolio.

Question – David Silver: Okay, great. I was hoping we could get an update on the talc litigation and settlement negotiations. So when you did report your record second quarter results, I mean your stock did decline, which I attribute in part to investor concerns regarding the potential time and expense required to ultimately reach a settlement agreement for the remaining talc litigation involving with your divested Barrett's minerals unit, the company added a credit line of $30 million or so for purposes of continuing mediation efforts, hopefully to reach a final settlement. Can you just update us on the current status of those mediation efforts with the main groups, you know, representing the potential claimants?

Answer – Douglas Dietrich: Yeah. We are going to continue to support this process. Last year -- about this time last year, we put Barrett's minerals into bankruptcy. It had, you know, it's really unfortunate. Our products are safe. We stand by those products. But given the tort -- the talc tort environment, it's just gotten pulled into all of this and we felt the best thing to do for the company and investors was to protect it through bankruptcy and then negotiate a settlement through a 524(g) trust, which you can do with this class, this litigation. That has gone. It's a very structured process, the bankruptcy process. We have been supporting this for at least 18 months before putting it into bankruptcy. So the $30 million is not something the company is it able to handle. It's now verb because we're showing it to you in terms of supporting it from outside.

But we have been putting in money, supporting the litigation of this process for a couple of years. But now it's, you know, it's something that we're taking a charge for and writing off because it'll either be consumed in the process or we're going to contribute it into the trust, but we're going to continue to support it. We're hoping that this will conclude quickly. We're moving as fast as we can through mediation. Being in mediation is a good thing. We're not litigating this right now. So both sides are trying to find a resolution that's fair and final for all parties, and that's what we're aiming to do.

So, look, we're hopeful that we're continuing the process that's being oversight -- overseen by the Texas bankruptcy court. It's moving along. What I can give you, we're going to look for some resolution likely that'll be a contribution for the company into a trust to get final resolution for all of this and move it behind us. I can't tell you what that will be. What I can tell you is that hopefully over the next several months that'll be concluded and that the amount that we contribute is not going to put the company's growth or anything that we're going to hopefully talk about. The rest of this this meeting at risk, we will be able to continue to function with organic and inorganic growth as we had anticipated. That's my current outlook.

Question – David Silver: Okay, great. I am going to ask you about the reason for the new segment structure and the benefits that accrued from that, in part because I do think, you know, it's coincided with a structural improvement in your underlying margins. But I think about a year and a half ago, you did revamp your segment structure to one that's focused much more on customers and end markets serve in a way from a legacy segment structure that was determined mainly by the primary mineral that was involved.

So the new structure also simplified and streamlined management, and that led to some fixed cost savings. Can you just review quickly your thinking behind driving cost improvement and revenue growth from the new segment structure that you have first, you know, the consumer and specialty segment. And second, your engineered solutions. What is the -- what are the main outcomes to-date and how does your company measure the success of the new structure moving forward?

Answer – Douglas Dietrich: Yeah, I think, you know, maybe well, I think it's overlooked sometimes, but maybe not so and some companies is the power of the organization and organizational alignment. Right. So I'm always talking about corporate culture at MTI and how strong it is and how unique it is. But lining up organization with that culture is equally powerful, if not more so. What I mean by that is just clarifying kind of who you are and what the business is, putting in common parts together, creating conversations, shortening conversations, accelerating conversations. What I mean by quote, conversations around innovation, around product development, about sharing marketplace trends, about similarities between customers. It just drives all sorts of positive dynamics. Not only does it become a more efficient organization, I think we did have some cost savings that we mentioned last year, and we've taken some fixed costs out to do that.

But just that -- that alignment and energy it brings to the company and each of the individual product lines and I think, David, that's the most largest benefit we've seen from this. I think when we talk about innovation, we talk about product development, speed of product development, our vitality index, which has increased over the past several years. This is a major factor that's going to keep that engine turning and that is these commonalities between these four product lines, the sharing of ideas and the organization around them to develop things and think about things and efficiently innovate more -- more efficiently innovate than we had in the past.

And so we've seen all of that. I think you're going to see that you're seeing it happen right now in our household, the personal care business with innovations and our personal care products, natural ingredients, in our pet litter business we've got some announcements coming out there and in paper and packaging and in our performance minerals business with bioplastics, some of the environmental things that are happening in recycling that's going on in paper, you know, it's been a tremendous, I think a lot of people find career pathways now in the company and more association with opportunities around the world and in different businesses.

And I think that just brings energy to the organization and so I think that's my job, right. Creating that alignment, creating that energy, creating that excitement, which all drives growth and performance. That's part of my job, I guess.

Question – David Silver: Okay, great. You did start to talk about some of your growth initiatives. So apologies if there's the little overlap here. But you know, your vitality index, the percentage of your revenues derived from products introduced over the past five years rose to 18% during 2023. Many of your new products possess environmental benefits versus competing or legacy product alternatives. I just wanted to focus on a couple of areas within engineered solutions, I was thinking about your FLUORO-SORB product for soil, groundwater and drinking water remediation. And then secondly, within your Consumer & Specialties unit, I was hoping you could talk about the newer growth initiatives for NewYield and for packaging in PCC. So maybe just the organic growth potential and possibilities for FLUORO-SORB and your PCC business?

Answer – Douglas Dietrich: Yeah, sure. Look, those are two great examples of some of the innovations that have come out using -- just applying our core technologies, you know, to our minerals. We'll start with FLUORO-SORB. I know that's a very hot topic with PFAS remediation, and I think it's going to be a big opportunity for the company. I don't know how big the market is and I know how big the drinking water market is, but I don't know how big the opportunity set is globally. I mean, there's a -- it's going to take a long time to remediate what's out there. It's going to take a long time to regulate what to remediate to. But that's all going to happen and that's going to be something that the companies can participate in for a long time. That comes from, though a core technology which is being -- we call surface -- particle surface modification. Our ability to manipulate the surface of a mineral substrate because it has a certain capability unto itself, has bentonite and other minerals that we have.

But being able to change the surface of it to attract the PFAS molecule or other molecules and chemically bind it. And that's something that we've done in other markets, not just for PFAS, it's just an application of what we've done elsewhere. That's one -- that's one thing that's come out of that new product development pipeline.

I think the same thing with renewable fuels and edible oil purification, taking some of our mineral bases that we have are reserves and being able to apply them because they have certain characteristics, certain surface particle -- surface characteristics that are able to attract chlorophyll and other contaminants out of our impurities, out of biofuels and edible oil. That's just an application of one of our core technologies. You mentioned NewYield, which is recycling technology.

I mean, being able to take a waste product on a paper mill or a packaging site, take a look at the particle, manipulate the surface of it or its shape, and then being able to put it back in as a functional filler into paper and packaging is exactly the application of crystal engineering that we do. We can either grow the crystal from origin or we can manipulate something that's kind of almost there. We can change it back into something that makes more sense and can be reused. That creates an enormous amount of value for those customer bases.

We have some -- and I mentioned some announcements that will be coming out. We're going to be announcing a new kind of global CAT litter brand, a B2B brand, not a consumer brand, but one that our customers around the world can reference us by because we've built this out of four different private businesses and now we have a global $400 million private label pet litter business, and we're signing some contracts and with partnerships in Asia to -- and then maybe interestingly some robotic cat litter boxes.

So but that takes a certain type of innovation in the litter itself. We're really excited about this because this is something that's growing very quickly and it's going to help our growth in Asia. So while we have these, you know, positions in North America and innovating around odor control and in animal health and same thing in Europe, we're also following the trends of automation in Asia and so that's going to be coming up. So look, I think across the board, I mentioned the bioplastics and some of our performance minerals, these are -- you know, this is our ability to look at trends for our customers, see what our customers are looking for, the end consumer is looking for, but also general global trends of where we can apply our core technologies to create solutions.

And I think you're seeing that in bioplastics, FLUORO-SORB, recycling and in our cat litter business, in natural ingredients and that's -- what's behind it. And I think that organization you talked about earlier is speeding it all up. So I think it's -- we're in a really good spot with our innovation and organization.

Question – David Silver: Okay. Thanks. And then again, you touched on the pet litter business and the M&A there, but maybe a broader outlook on M&A activity. Historically, it's served as the means for accelerating your organic growth and strengthening competitiveness, expanding geographically and you've done a series of, I'll call them bolt-on or larger than bolt-ons in your pet litter business. But if you go back even a few years earlier, actually you've been publicly associated, I think, with at least $1 billion, potential billion dollar plus transaction over time. Could you just talk about maybe the M&A funnel, outflow is it or how active are there areas of greater strategic interest? I'm guessing pet litter from here is included there still from your previous comments. And most importantly, I mean the markets have been kind of volatile here but would you say valuations have strengthened recently or are they coming closer to maybe your preferred levels? So just your outlook on the M&A landscape, please.

Answer – Douglas Dietrich: Yeah. I'd say we have -- we have opportunities in all four of our product lines to grow inorganically. I think there's some bolt-ons. I mean pet litter was very interesting when, you know, we took a small business and looked at the fragmented nature of the global private label market and looked at us having the only vertically integrated position and it just made a lot of sense to put it together and we thought we could drive a lot of value from, also part of the strategy of building out a more consumer and stable growth platform for the company using one that we already had.

It was just small at the time. So they took that from $70 million, $75 million to $400 million with kind of 7% average growth. That's a big difference from what the company was before and I think we've done that a number of places. So there's still opportunities in pet litter. But I think when you go back to that, there's core technologies where I'd leave you with it is, you know, these technologies apply to different minerals and we see that in reserves. We could look at buying reserves around the world that deepen and strengthen our positions in different, different geographies. They could come with a similar mineral that's being applied to a new market. It helps us accelerate our growth into that market and it could be a different mineral, but it's also a very similar market or a market that we know.

And that is because there are other minerals, calcium carbonate and bentonite, where our technologies apply. We also think that we have a very good operating model as a company, very lean and efficient operating model. And so we feel that there are a number of bolt-ons or larger than bolt-ons that we could acquire, pull into our operating model, very efficient transactions, back office services, record global shared services that we've already built out around the world, generate a number of synergies from, but also apply those technologies to create more growth.

So I'll leave you with that. It's similar minerals in new geographies and markets or it's probably a new mineral, but it's probably going to be a similar market. And there's opportunities out there now. Are they transactable? Well, I don't think -- I think if you've seen the company over the five acquisitions that I've been involved in, it's a company. It's not like we're going to go out there and just pay for something high multiple just to get it.

We have a pretty rigorous process as to what we're to pay for it and it's really based on what we really, truly see the synergies are in the growth. And if that's a transaction -- transactable, multiple, then we feel we can generate value from it. And if it's not, we'll walk away. And I think you've seen us walk away from one in the past, the one you might be referring to. That's not to say that we won't get aggressive and take a little bit of risk, but we are realistic in what we can do with things and we're going to be prudent with what we pay for it.

Market multiples and valuations, I think there's a lot of people ready to go do transactions. So I think there's transactions might be coming around more, but I think there's a lot of people chasing them and that's not great for valuations. Well, that's not great for bidding multiples anyway. So we'll see. We're patient. We know what we're looking for. We've got a nice list of small, medium and large targets and yeah, we'll see what happens. We'll see how it goes and we're going to -- we're going to be -- I think we've got a balance sheet right in the right spot to be able to do it.

So at one point, 7 times leverage with some cash on the balance sheet, that's exactly where we want to be. And and we'll either steer that back to shareholders if we don't see the transactions or if we see something that we've been looking at that we think we can generate a lot of value. We'll go after.

Question – David Silver: Okay, thanks. I'd like to build on that maybe, you know, asking Erik if you could, you know, as you said, you have a moderately levered balance sheet, a lot of flexibility, good cash flow prospects. But in terms of maybe doing something a little more transformative, I mean, it's been several years, Doug, but there was the Amcol acquisition for instance. But Erik, could you just kind of give us a sense of what your banking group is thinking in terms of supporting something more than a bolt-on, something that might be considered transformative, you know, level of support for that? And then if you could, is there kind of an upper limit that you might consider in terms of doing a larger transaction? How high might you be willing to lever up to, you know, to purchase the right asset?

Answer – Erik Aldag: Sure. Thanks, Dave. So, yeah, I would say there's plenty of support and plenty of appetite out there for a company like Minerals Technologies. We've proven our ability to pay back debt following an acquisition has been proven, primarily through the Amcol acquisition, which took the company up to four plus times net leverage and in a disciplined way paid down debt over the next several years, back to below 2 times in relatively short order.

So I think we have the track record there, we have the solid balance sheet and we, you know, in terms of our the framework that we use for analyzing and assessing acquisitions, as Doug already referred to. I mean, if we were going to go up to that kind of level again, we would know exactly what we were going to do with that asset on the back end and exactly how quickly we would be able to de-lever following a transaction like that.

Question – David Silver: But. Okay, great. I'd like to ask the next question about your China based business. I know it will probably spill into Asia in general, but there's a lot of commentary about a slower or a sluggish recovery persisting in China. And I was just wondering if you could give us a sense of the progress in your China based businesses overall. And I'm thinking that would include your foundry -- your custom foundries and blends business as well as expanding a (00:32:40) and on the PC C side, you know, there's a couple of larger projects there, the 150,000 ton plant and 300,000 ton project that uses both GCC and PCC.

So just a thought about how the general economic trends in China are affecting your businesses there and prospects for getting back to, I guess, normalized growth.

Answer – Douglas Dietrich: Yeah. So you mentioned the two -- our two main businesses in China in particular are our paper and packaging business and our foundry metal casting business. Both of these have, you know, we've been operating in China for longer than 24, 25 years plus. Right. So while established long term growth that the changes over the past couple of years, as you mentioned, have been or -- I'll take the paper packaging side. We used to be, you know, kind of 100% paper, white coffee paper, a little bit of coating in terms of coated paper and paperboard that has shifted over the past couple of years as we've really looked to grow into the packaging market.

So white boxboard think even brown boxboard with something white on the outside that could be printed on. And we have developed some technologies for that. And so while, you know, there is still growing demand and penetration of precipitated calcium carbonate in the paper market, which you've seen some of our larger you just mentioned at Chenming plant 165,000 ton plant that we've put up. I think we have another one that's coming up with Nine Dragons and Beihai, which is another 85,000 to 100,000 ton plant coming up. I think we're building four or five PCC plants over the next year. Two of those that are in -- more into packaging, so both PCC for the substrate and GCC, which is technology for the coated portion of that and that is into the packaging market.

And I think packaging market is growing, it's growing in -- that white high end boxboard in China, we're applying that NewYield recycling technology for added value to those markets and developing. And that's where you're starting to see some of these bigger facilities come in, these 320,000 tonne PCC or GCC facility. We have another one that we've announced, I think it's 100,000 tons and 200,000 tons of almost 200,000 tons PCC, GCC combo. And that's where we're seeing the growth and the change over the past few years in China.

So now we've got an opportunity set and I think you've heard T.J. Monagle, who runs that group, talking about the opportunities that we probably have at any time 23 to 25 targets across the board of packaging and pure paper and also recycling technologies throughout Asia. So we've got a really healthy pipeline and like I said, we're building five of them this year. So good growth for us in China in paper and packaging.

In the metal casting business, we've always talked about this as being -- as penetration into a market. The China market is a foundry market. It's 4 times bigger than the United States. We also had India in there because it is a very large foundry market. It's bigger than the United States as well. So just those two markets alone are 5 times bigger than the US in terms of potential volume for us. We've been in China in the foundry market for many, many years, as I mentioned, taking that technology and our engineered blends technology that we do here in North America, creating a custom blend for our customers and bringing that to Chinese foundries.

I think when I started, when we bought Amcol, that penetration rate was probably 10% of foundries used it and used an engineered blend. I think we're probably up to 25 plus percent, largely because we've driven that penetration. But think of it another way as 25% penetration in a market that's 5 times bigger than the United States. So there's a lot of growth to go in China. That number, that penetration number of using kind of something that we produce an engineered blend in India is probably closer to 5%.

In North America, it's 95%. I mean, everybody uses an engineered blend that's probably ours. So the landscape for continued growth in the foundry market and in China and India is enormous. That's evidenced by over the past, I don't know, 10 years we've grown in China at a CAGR of 7% plus or probably about 7%. And I think that rate is stable for a long time. From a volume standpoint, you know, we're growing, China is probably -- Asia is probably as big as North America. But I think still lots room, lots of room to grow at that kind of growth rate.

So we've seen a bit of a choppier market in China in terms of delivery and order pattern over the past couple of years. It's spiked out of COVID and it's slowed a bit, but that hasn't changed overall. That growth rate of 7% CAGR for us. So I think there's -- it's also larger because we're localized. We mine our own product. We convert it in China, we sell it in China. So we're not reliant on exports or other macro trends and economic issues around the world.

And right now, our paper business is growing faster than it was five years ago and our foundry business is at that same 7% CAGR despite what we're hearing and some of the economic news in China. So I think we're well positioned to continue that, David, in that country.

Question – David Silver: All right. I do have one other question, but I want to squeeze something in between and that is your investor and analyst event on September 24. So it's an unusual event, in my opinion. I told Lydia to save me a front row seat, but it is going to be focused on a lot of the R&D efforts and a lot of the new products that you've discussed here. So if you don't mind, maybe a 30 second commercials to our audience about, you know, what I consider a pretty high value pretty unusual event?

Answer – Douglas Dietrich: Sure, David. If you don't mind, you know, we've been working on this. I think -- I think it's a -- it comes from I don't think people understand Minerals Technologies. So now that we've, you know, segments at ourselves, how we have to better reflect to the company is to show what's really behind moving from, say, 10% of our sales from new products to now 18%, you know, kind of doubling the rate of innovation and commercialization of those new products, the speed of how we do it and some of what's really trying to highlight those core technologies, where we're going to show products.

But those are current manifestations of what we do as a capability of applications knowledge, of these core technologies, applied to deep and unique mineral reserves around the world. So we're going to show you what those mineral reserves are. We're going to show you a couple of those core technologies. Those can be more the bentonite side of things in our Chicago office, not the crystal engineering and carbonates that'll be for a later day.

But we think it's a great highlighting of the company's capability and our applications expertise and how that can contribute and play for long periods of time. This is a very sustainable capability. We're going to show you how that's manifesting itself today in our cat litter business and wastewater treatment and edible oil turf area, say, all sorts of different things. But I think getting to know the team, getting to know some of the business unit managers that'll be there to be able to interact and understand kind of a little bit better who we are.

So though unique maybe for the company, but I think it's going to be a great day and I hope a lot of you are able to attend and we'll see you in the front row, David. I'll see you there.

Question – David Silver: Okay. I do have one last question, you know, maybe I'm hoping it could be answered in a minute or so because we're right up against it. But this would, again, this would have to do with kind of the near-term industrial and consumer demand outlook. But if I read the data points, I mean, the industrial side of things has been sluggish for a while. But I think the last few data points have even pointed to incremental , you know, softness and certain parts of the consumer or demographic or I guess are showing what they say are some signs of strain rising credit card balances and things like that. But from your perspective, I mean, are you taking any steps for kind of an incremental downturn maybe over the next few months? Is it really steady as she goes or full speed ahead?

I mean, what about the -- just the most recent, you know, twists or dips in the economic environment, let's say, in North America and Western Europe? Have you made some adjustments for that?

Answer – Douglas Dietrich: Well, we're definitely looking at it. I guess we're always prepared for -- we've been through a number of cycles in the company. I think the company has always operated on a very lean footing. I think we're very quick to move. I think we've demonstrated that before. So, yes, we're very well --we're very be -- we're being very prudent with costs right now. I would tell you that. I would say that, we've been talking about recession for the past couple of years. But as we got into the beginning of the summer, I'd say -- and I think anyone tell you this, we're probably closer to one now than we've been in a long time. That's the short term. And so we're very -- we are being very prudent with costs.

But I will mix that with what I see as the long term kind of growth potential of the company. So we'll -- we will look at short term spending. We will look at making sure we're very prudent with decisions, but we're not going to at this point make any adjustments, nor would we want to on some of that innovation, sales, expansions that we've talked about in our strategy. We're full speed ahead because we do see, at least right now, I see this being potentially a temporary slowdown that we're seeing probably through the back half of the year.

We are seeing some signs that things could perk up if, you know, there's a lot of projects, especially in commercial construction, that are on the shelf that we think will come through with some changes in interest rates or I guess more confidence in interest rates. And so I think -- I think we're going to work -- we're buckling up a little bit for the next step through the rest of the year. But I do think as we get into the second quarter next year, we're not mortgaging anything for that growth. So we're full speed ahead and I think the company is well positioned to continue to grow along the tracks that we laid out with you a year ago through our two -- our two segments and four product lines.

So I think we'll be right back on track. But make no mistake, we're not -- we're not, we're making sure that we're in a good position regardless of what comes out with do so.

Unidentified speaker

Question – David Silver: Okay, great. Thank you, Doug. With that, we're at the end of our allotted time. I'd like to thank Doug Dietrich, Erik Aldag and Lydia Kopylova for participating in our conference and especially sharing their insights on the company and the markets they serve. I also like to thank the audience for their participation. With that, I'll call an end to the session. Hope you all have a great day. A great rest of the conference.

Answer – Douglas Dietrich: Thank you, Dave. Appreciate it.