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Company Participants

Douglas T. Dietrich - Minerals Technologies, Inc., Chairman & Chief Executive Officer

Other Participants

Daniel Rizzo - Analyst

MANAGEMENT DISCUSSION SECTION

Daniel Rizzo

Good morning, everyone. I'm Dan Rizzo with Jefferies Equity Research. Up next is Minerals Technologies. And with us as a team here, led by CEO, Doug Dietrich, he's going to take you through a quick presentation and there should be time at the end for questions.

With that, I'll turn it over. Thanks.

Douglas T. Dietrich

Thanks, Dan. Appreciate that. Good morning, everyone, and thanks for joining today. Just a quick note on some forward-looking statements and some non-GAAP measures that I'll be presenting. So please take note.

Let's go through a quick overview. I don't know how many of you know Minerals Technologies, but I'd like to give you a quick rundown of who we are. About $2.2 billion in sales, 4,000 employees, operate in around the world 32 different countries with a heavy technology focus with through 12 R&D centers. And we'll talk a little bit about that later.

But what we are is a specialty minerals supplier, vertically integrated, that has a number of core technologies that we apply to those minerals. And so, we yield different functional attributes in both consumer and engineered products. But I think, you'll come across some of our products in something you consume or in something that you're using that we've had a piece, something in your everyday life you'll come across. I'll give you some examples of those.

I mentioned global footprint, but we're also aligned with the trends in those geographies and customers in those geographies. So we don't ship a lot around the world, we operate locally, where we're sourcing or manufacturing and supplying within each of the regions that we operate. And I mentioned we're vertically integrated, I'm going to talk about that in a moment. You can see the mix of geographies, North America being our largest at 57% and Europe being the second.

So we – what we call a well-balanced portfolio. Why do we say that? Because it's balanced between kind of more consumer oriented products and more engineered or industrial type products. On the consumer side, these are functional components. They're either something you're buying on the store shelf or they're a functional component of something that you're probably buying on a store shelf or that you're consuming in your day. On the Engineered Solution side, the other half of the company or approximate half of the company, these are not something you consume, but they're something that we're making that's helping our customer make that product. And I'll get into that in a moment.

So let's start with Consumer & Specialties. The Household & Personal Care business, just like it says, these are household items, we're the largest private label packaged, private label pet litter supplier globally. We've built that business from a small business around $75 million, it's now over $400 million. I think, we're the single only global supplier to customers around the world operating over 500 different – supplying 500 different type of brands or supporting brands in that market. Other household products, edible oils, we're helping purify edible oils, removing contaminants, renewable fuels. We are in animal health products and these are all bentonite-based and they use a technology that I'm going to talk about in a moment called functional additives. These are things that we're doing to help a product become more functional, pet litter itself as a functional of the bentonite that goes into it's a functional additive.

Below that Specialty Additives. These are additives that are going into making a functional additive into paper and packaging. They're going into a pharmaceutical, they're going into food and beverage additives, calcium fortification, et cetera. So, a functional component of something you're consuming.

On the Engineered Solutions side, we operate in two product lines, High-Temperature Technologies. This is helping foundries, steel customers manufacture their product around the world. We use engineered blends to help constituent components to build these, whether they're green sand bonds or they're refractory products for the steel making. But they are helping to make more efficient production of those industrial and high-temperature goods.

Environmental & Infrastructure is the fourth product line, the smallest one. But this is a growing business where we're looking at projects on remediation. So, sediment capping, a landfill lining systems and a growing piece of this business with industrial wastewater remediation, one of those being PFAS remediation, one of our newest technologies that's in this product line.

So what do we do? Again, I mentioned a technology-driven company. We have four core technologies. We have other technologies, but these are the four core ones in the company, they're crystal engineering, where we can generate and develop a crystal, grow a crystal of calcium carbonate in any shape. And we do that to become a functional shape or a functional additive that's in our Specialty Additives business. Functional additives, these are products that are going into becoming a functional component, whether it's odor absorption or elimination, this is what we use in our pet litter business. Engineered blends and particle surface modification blends are blends of engineer of minerals that we're doing to become that component largely in High-Temperature Technologies and particle surface modification. We actually modify the surface of particles to do certain things, in many cases to attract a toxin, to remove something from wastewater or to become a rheology modification product.

We apply these technologies to our vertically integrated – we own mineral reserves around the world. Two of our largest mineral supplies are bentonite and calcium carbonate. We own other minerals, I can talk about that. We apply these four technologies to those two – largely two mineral reserves. And you can see in the middle, some of the functional attributes that that creates. Absorption or elimination, lightweighting, CO_2 sequestration, calcium fortification, recyclability, a lot of productivity and energy savings for our customers. And that leads us into leading positions. We're the largest bentonite supplier in the world, we're probably the best at these technologies and applying them to these minerals that leads us into a number of different markets, but largely we have number one positions in many of the markets we operate in those four product lines.

Also because we're mineral-based, that leads us into a number of different trends or sustainable trends, natural ingredients, human health and safety, pollution elimination or prevention, waste reduction and energy efficiency. These are trends that are going around, around the world, that apply to a number of our different product lines. You'll see that what's driving some of the growth and you'll see in each of our product lines in the middle. Pet ownership trends in general, but also pet health and pet cleanliness driving growth in our pet litter products. Renewable personal care, so renewable or natural additives for personal care components, you're seeing the natural ingredients kind of trend. Well, that's a lot of what we do. We provide natural ingredients into other consumer products, but also with renewable fuels, with our newest technologies we've developed over the past five years. We're becoming one of the – probably the technically advanced renewable fuel filtrations. We're removing contaminants out of both edible oils and renewable diesel.

Specialty Additives, we've developed some recycling solutions for paper and packaging, but also our calcium carbonate and crystal engineering, developing lightweighting solutions and also solutions for bioplastics, driving that growth. In High-Temperature Technologies, a lot of our new innovations are around emission reductions and also automation and data analytics to help improve productivity and energy use in both the foundry and the steel making process. Environmental & Infrastructure, I mentioned some of this, we are probably one of the three best technologies in terms of PFAS remediation, and so we're working to deploy that through drinking water systems, groundwater systems, working with the EPA currently to kind of prove out that technology, along with two others as the recommended technology for removing PFAS from water. But also into geothermal drilling systems, and as we harden the grid, a lot of our newest technologies for drilling solutions.

There's some general long-term growth rates that we see, those trends and our new technology and our mineral reserves providing for those product lines, in total that's kind of mid-single-digit type growth profile for the company. But the other three components of that, as I mentioned, is kind of as we expand into other geographies, as we expand into more consumer oriented products and through that innovation, we see that mid-single-digit growth, long-term growth for the company.

A couple of years ago, we put out those targets. So there's the mid-single-digit growth, but it's a little bit different company than it was 10 years ago, as we've built out this more balanced portfolio with a larger consumer oriented product offering, those consumer oriented products offer very attractive margins. And as they grow, we see that margin improvement. We set an interim target for ourselves of 15% by 2025, we'll likely hit that this year about a year early. But that top line growth and that margin expansion generates about a 10% compound annual growth of income, EBIT. And we've done this by maintaining the profile – the cash profile of the company. We have a strong free cash flow generation and historically and we see that continuing around 7% free cash flow generation to sales. That gives us a lot of flexibility. A strong balance sheet, balance sheets in play is about 1.8 – 1.7 times net EBITDA, – I'm sorry, net debt. And that gives us a lot of options to both either return cash to shareholders or continue to grow the company through inorganic opportunities as we see, as they come along. And I'll talk a little bit more about our cash deployment – capital deployment strategy in a moment.

So we've had some strong results this year with these – this portfolio of kind of balanced and leading businesses has been delivering. It's kind of transformed the company for a lot – for higher performance. We aligned just two years ago our organization around those two new segments, we used to operate in three. But that alignment around the consumer and industrial has generated a lot of efficiency within the company. We've really increased the new product development in the company, we used to be about 5% of our sales were generated from new products, we're now at 18% driving that higher to 20% over the next couple of years. But that's a different type of kind of engine to the company in terms of growth profile from new products. That's a lot of where the renewable fuel filtration products, the PFAS remediation products, our animal health products have all come out of that engine. And as I mentioned, that's a lot of – a number of the products that are leading the growth going forward.

But we've hit 15.1% margin for the first half. Like I said, that's about a 1.5 year early. We're targeting about 15% this year. $3.15 earnings per share and again $106 million in cash from operations, in the back half the years usually the stronger cash generating half for us.

Number of different growth highlights. Already this year we've got new formulations going out in the pet care and fabric care. We just launched a new – we're one of the largest retinol manufacturer – delivery manufacturers for the personal care market. But again, those natural ingredients, we've just launched a natural delivery system for retinol into face products that came out at the beginning of the year. We're building three new satellites in paper and packaging. They continue ramp up. We're doing five more this year. Two of those are NewYield, which is that recycling technology I mentioned.

High-Temperature Technologies, we've developed some new automated and data collection systems for the electric arc market, arc furnace market, which is using our refractory products to deliver in contract basis to these furnaces. It also – it's a fully automated way of delivering our refractory product into the furnace, removes any human interaction in that furnace. It's also much more efficient. We're putting eight of those MINSCANs in this year with 15 of them under contract, which is generating about $150 million over the next five years of sales. Environmental & Infrastructure, I mentioned the EPA drinking water, working with EPA around drinking water regulations for our FLUORO-SORB product, which is, is our PFAS remediation.

Business model, we have, as I mentioned, this – we see this as being pretty – a pretty strong business model. This is a balanced and stable growth. You have that growth from the consumer side of the business in high single digits. You have the industrial side of the business, more Engineered Solutions, it's probably around 3% per year, but together you have this more stable growth profile for the company and both the higher margin products growing the fastest. We have innovation across all the product lines and that margin expansion and that growth together just because we're going to continue to generate that strong cash flow profile for the company.

We're going to get to capital allocation, that free cash flow we use, we generate about $260 million in cash every year, we use about $90 million of it in CapEx, that leaves about $150 million or $160 million (00:13:23) of free cash flow. When we're at our target net leverage around two times, we like to steer about half of that back to shareholders, this year we're doing that through a $75 million share repurchase and also about $14 million in dividends. And we like to keep some of that on the balance sheet, so that we can look for inorganic acquisitions as they come around. We can always steer more toward shareholder returns if M&A, we don't see anything on the horizon. But at the same time, that gives us the flexibility that if we do see an acquisition, we can pull back on the share repurchase. And I think over the past 10 years, we've shown, we've generated quite good returns from the acquisitions we do.

Here you can see the balance sheet about 1.7 times and we're going to continue with our share repurchase program. We do have an M&A focus, that focus is accelerating that organic strategy. We have opportunities in each of the four product lines and we would look at expanding the – extending the reach of those product lines globally as one opportunity, also building out our reserve base in each of those minerals (00:14:27) main – mineral products, we're adding new technologies that can apply to those same minerals, that's the way we would look at M&A.

Like I said, I think this is – I'll leave some time for questions, Dan. Kind of a powerful combination. We leave this graphic up there so you can see that, obviously, it's driven by our values and culture, which we can get into, our MTI business system, but it's really built around those differentiated technologies and those global mineral reserves. And we think that, with that growth and that margin profile and cash flow profile, it's a pretty, pretty strong company that will continue to grow and generate returns for a long time.

Anyway, there you go, Dan. That's a quick overview.

QUESTION AND ANSWER SECTION

Analyst: Daniel Rizzo

Question – Daniel Rizzo: So there is time for questions, plenty of time questions. If there's any from the audience, please raise your hand. All right.

Unidentified speaker

Question – Unidentified speaker: Can you talk about the PFAS solution...

Analyst: Daniel Rizzo

Question – Daniel Rizzo: One second.

Unidentified speaker

Question – Unidentified speaker: Can you talk about the PFAS solution in terms of where into development you are?

Answer – Douglas T. Dietrich: Sure.

Unidentified speaker

Question – Unidentified speaker: What differentiates the product and the opportunity in total?

Answer – Douglas T. Dietrich: Yeah. So there's, I'll give you – there's three technologies, ours being one of them. Probably activated carbon has been around for 100 years, ion exchange resins is another one that's used largely. We've developed this over the past probably six, seven years. But it's come out of some of our water filtration, our industrial water filtration knowledge base. So, we've been treating industrial wastewater for a long time. What we do is our ability to modify the surface of a particle and we're able to change the charges. And I don't want to get into chemistry of it, but we're able to put or change the chemistry of the outside of that particle to attract specific things. In this case, we've engineered it to attract a PFAS particle, polymer particle. The difference about our technology is that we will adhere chemically that particle, which, as we're going through making sure that it cannot be released again. And so, going through the testing and being able to attract the particle and then, bind that particle electrically to our substrate.

We've been testing this, I think, we probably have 100 different pilots going on now, that's probably 100. And last year we've been in a number of large clean-up projects. So groundwater clean-ups, military base clean-ups already to prove the technology. I believe we're in four municipal utility – drinking water utilities right now. And we've been selected by the EPA, along with the other three technologies to do a very rigorous study around how each of these three technologies works through, I think, five different geographies in the United States, that'll take a year, but a very comprehensive study. And, we've already been validated through all of these trials and utilities, but this is something that the EPA would like to do, it says, here's the regulation and drinking water that goes into 2029. It's basically a non-detect, and they're using the three of these technologies to go out to show utilities. Hey, these are, kind of EPA tested technologies that you can choose from. Our thought is that, all three of them will be used. It depends on the utility, they could be used individually or they can be used in combination.

I think, the benefit or I guess the value that our product has over the others is that, it's a lower cost and the total cost – it's a lower cost and higher effectiveness. And I'll give you, what I mean by effectiveness, meaning, these are charges to vessels, right? So, this is the media that's going into a water treatment vessels. The dwell times you could – our media can stay in that vessel for much longer than others, which means changeover is lower or you can use a smaller vessel. So the capital cost of building the vessel will be lower. So it's either your existing vessel or a new vessel. But still it's going to be an enormous market. We think that this is going to be a long-term growth opportunity for the company for a long time. Again, we're vertically integrated in the mineral, the technology and the capability, and we're out there right now and I don't know, 100 different utilities testing this and the EPA is working with it as well. So we think it's going to be a great opportunity for us (00:18:42). Hopefully that answers.

Unidentified speaker

Question – Unidentified speaker: So just to follow-up on that. So with the PFAS opportunity, you don't see it as a zero sum game. You think everybody can be winners just given the size of the market, you're not going to be, I guess, competing directly with the other types of technologies?

Answer – Douglas T. Dietrich: Yeah. I think we'll be – I mean, we'll be competing with the technologies. But I think this is an enormous market that, even a small share of the market for us, which I think, we can gain more than that, will be a large opportunity for the company. So it's not – again, I don't even, I'm not even sure that we understand how big of the market it could be, I mean, this is just the United States, right. So we're talking about working in the Europe as well. And I think, in many cases, Europe might be going a little bit faster than the United States in terms of its application and use.

Unidentified speaker

Question – Unidentified speaker: Hi. In your high-temperature solutions, are there any fluorine-based molecules for spar (00:19:28)? Anything that goes into your solution there (00:19:32)?

Answer – Douglas T. Dietrich: No. They're not. We do tests, so we're looking at anything that comes in. There are a number of molecules in just about everything that's out there, right? So but from something that we're producing, no. There's not anything that we own or we're producing is not in there. We do are now starting to test to make sure we're not adding to that process. And so at the moment no. Not known. Yeah.

Unidentified speaker

Question – Unidentified speaker: So in your steel business is there, what's the mix between EAF and blast furnace? And is there a mix headwind there as we shift more towards EAF steel?

Answer – Douglas T. Dietrich: Yeah, it's interesting. If you asked me that question 10 years ago, I'd have said 70% integrated mills and 30% EAF. It's the exact opposite now, it's probably 65%, 35%. But we've been developing new formulations, again, engineered blends for refractory formulations to move into the EAF market, but we've done that in a different way. So we've partnered with customers. We used to go in and maintain the furnace, we would gun the refractory and then, we get out of there, right? And there was just this kind of, low tech gunning company, I guess I'd say. We've changed that completely over the past six or seven years, we're now we focused on the automation equipment. So we've partnered with large EAF customers that want to drive safety on the floor. They want to remove personnel from a very dangerous area. And we've combined technologies that we've always had, we've combined both the laser measurement, the data analytics and the automation.

But we've done that in a way that packages all three together to put on top of that furnace. So now there nobody's on the floor, you're in the pulpit completely automated. This is, we're scanning a 3D scan of the inside of the furnace. The equipment we developed will not only scan that, it'll analyze where it needs to go and it will automatically apply the refractory. We'll either sell or lease that piece of equipment, but with that lease or sale comes a long-term contract to use the refractory. But we needed the different refractories to be able to service the whole inside of the furnace. So now it's a – now we're taking an automated safety energy and efficient solution to maintaining that furnace, wrapping it in a long-term contract, but also starting to bring the analytics to that furnace. And now we're in top of 20 different furnaces around the world. We're starting to see that and turn that information and give that back to the customer. Hopefully, we sell that back to the customer.

So it's a very – it's a good barrier for others to get into. But we also with those EAF, they come with thin and medium slab rolling, cast rolling, into make that cast sheets (00:22:14). We're the only calcium metal manufacturer in the Western Hemisphere. And so, a lot of the, that calcium metal is used to purify the steel that's coming out. So we both have the, kind of the, the upstream arms or the downstream purification technology and some of the cleaning products that go in that they're consuming, those are very high margin. We also have the automation equipment, sale and lease, and then we have the refractories that are going into it. And that's what's driven us from that 70-30 to 70-30 either way as green steel has been moving and we're helping that transition.

Unidentified speaker

Question – Unidentified speaker: What's the latest with the Barretts? And is there any still outstanding lawsuits or are those all set?

Answer – Douglas T. Dietrich: It's – so, Barretts Minerals is our subsidiary that mined talc. Over the past 10 years, given what's happening in the talc tort (00:23:12) system, that lawsuits against, what we find are frivolous lawsuits with safe products. But it became too much for the company to continue to defend against the growing amounts of lawsuits that you've seen with other companies, that's come to just about every talc supplier. We put that into bankruptcy a year ago, October. It's still in that process, and positive news is in mediation with the plaintiffs. We're looking for a solution for both a final and fair solution for us, but also a final and fair solution for all parties, and that's still in mediation. So, it's a very structured process. There's ebbs and flows to it. It's in the Texas Bankruptcy Court, and so that's guiding the process. But we're still in mediation and trying to work through that solution. Nothing more than that. We will continue to – we've just announced that we're going to fund – continue to fund that process. So, we've taken – set aside some money to do that. But we'll continue to fund that process. We think mediation is right solution, and we'll end up with a 524(g) trust that will likely fund and be able to channel our any other liabilities into it. But that's what we're working through. So nothing more to add right now but still going through the process, yeah.

Unidentified speaker

Question – Unidentified speaker: To drill down on that process. So the asset was sold and the proceeds went to the plaintiffs, I guess?

Answer – Douglas T. Dietrich: Went to the trust, yeah.

Unidentified speaker

Question – Unidentified speaker: Went to the trust. And so, there's additional liability beyond that that you're mediating currently. But the – that assets now free and clear whoever the new owner is, owns it free and clear of any liabilities and you've given them indemnification I guess, sort of the court has given them indemnification.

Answer – Douglas T. Dietrich: They have. So the entity went into bankruptcy, assets were sold. Proceeds back into which were have been consumed in the process will continue to be consumed. We've added more resources to continue the process. They are I guess – the I don't talk about the purchaser but they're free and clear depending from past but future is on there – on them, right? And so, we'll look to, asbestos litigation is, asbestos tort is the only one that can create a 524(g) trust, meaning the trust goes in channeling all liabilities from all parties into it, that's the only tax code or the bankruptcy code that's allowed to do that. And so, we're looking to create that trust and figure out what that solution is. There's a limit to, what we think is fair and final. And those viewpoints on both sides are being worked through right now. And that's the mediation process, right.

Unidentified speaker

Question – Unidentified speaker: Just taking a little bit of a step back and looking at your consumer kind of facing business. I would assume, just given the strength of or the size of pet litter, that it would be somewhat recession resistant or I should say consumer resistant in terms of, I guess what I'm asking is, if the consumer credit crunch starts really squeezing lower income families, is that going to have an effect on you guys? Or you guys largely immune from that?

Answer – Douglas T. Dietrich: I don't think we're – I don't think anyone's ever immune from consumer spending and decline. But I would say that this business is much more. It's like, it's not as cyclical as you would see on the industrial side. So, I'll give you two things. There are more seasonality to the pet litter business, which is counter seasonal to our other businesses, meaning the summer is the low period, so hotter months cats are usually outside and winter months they're usually inside. And so, our strongest season is coming up in the fourth and first quarters, so there's some seasonality to it. I would say, though, that because we're a 100% private label, weakness in consumer spending, folks are looking for value, they tend to go from maybe more branded products to more local store bought brands, which is where we sit.

And I think you're seeing that trend around a lot of branded and private label products, where private label is growing faster than the branded products. So, the category in total in North America is growing at 3% to 4%. I think private label is growing at 5%, kind of around the world or globally. So, we're seeing this kind of 5% private label growth as the portion of the category growing the fastest. But I think, if you add to that and where we get to our 7% to 10% is that we're also entering Asia. So, cat ownership or pet ownership in general follows GDP per capita, pet ownership is growing in Asia. We're building solutions and delivering products there where that's growing even faster than that 5%. And so, when you add the geographic nature, even with the ups and downs in consumer spending, we see that that growth in that business over the long-term being 7% to 10%.

Analyst: Daniel Rizzo

Question – Daniel Rizzo: All right. We have about a minute left, does anybody else have any final questions? And if not, I guess, thanks. Thanks, guys. Thanks very much.

Answer – Douglas T. Dietrich: Anything else? Any other questions? Got a minute. One more.

Unidentified speaker

Question – Unidentified speaker: Just on the M&A front. Would it be something outside the core you have now or more of a bolt on?

Answer – Douglas T. Dietrich: The question was on the M&A front, would there be something outside the core or more of a bolt on? I would – I'm going to give you a very simple kind of two by two matrix that says, if it's in a, we would buy a new mineral, we'd bring a new mineral into the company. But it would probably be in a market that we currently serve or, or something that we have a technology that readily applies to it. I put it that way. So we could or we might get more of a mineral, the same minerals that we know very well, but It could extend us into a new geography or a new market. So it's going to probably be new minerals, same market or new markets, same mineral, something like that. Said, another way, I probably wouldn't go and buy a whole different mineral in a whole different market, something that doesn't apply to us. I mean, maybe if it's small brings in a technology, but it's largely going to be in the core. But it could be a bolt on market, yeah. That makes sense?

All right. Thanks everyone. Thanks so much.

Thank you very much for attending. Appreciate the questions.