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CORPORATE PARTICIPANTS

Cindi Buckwalter *Minerals Technologies Inc. - Head of Investor Relations*

D. J. Monagle *Minerals Technologies Inc. - Group President of Specialty Minerals & Refractories*

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

Jonathan J. Hastings *Minerals Technologies Inc. - Group President of Performance Materials*

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

CONFERENCE CALL PARTICIPANTS

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

David Cyrus Silver *CL King & Associates, Inc., Research Division - Senior VP & Senior Analyst*

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

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

PRESENTATION

Operator

Good day, everyone, and welcome to the Third Quarter 2019 Minerals Technologies Earnings Call. Today's call is being recorded.

At this time, I would like to turn the call over to Cindi Buckwalter, Head of Investor Relations for Minerals Technologies. Please go ahead, Ms. Buckwalter.

Cindi Buckwalter - *Minerals Technologies Inc. - Head of Investor Relations*

Thanks, Brad. Good morning, everyone, and welcome to our third quarter 2019 earnings conference call. Today's call will be led by Chief Executive Officer, Doug Dietrich; and Chief Financial Officer, Matt Garth. Following Doug and Matt's prepared remarks, we will open it up for questions. I would like to remind you that beginning on Page 14 of our [2018] (corrected by the company after the call) 10-K, we list the various risk factors and conditions that may affect our future results, and I'll also point out the safe harbor disclaimer on this slide. Statements related to future performance by members of our team are subject to these limitations, cautionary remarks and conditions.

Now I'll turn the call over to Doug. Doug?

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

Thanks, Cindi. Good morning, everyone, and welcome to our third quarter earnings call. I'll begin today by providing high-level commentary on our third quarter results, both the positive areas as well as the challenges we faced. I'll then go through the dynamics in our key end markets, focusing on some of the areas that have changed since we last spoke. I'd also like to give a brief update on the progress we're making on several strategic growth fronts. And following that, Matt will review our financials in more detail and take you through our fourth quarter outlook.

Heading into the third quarter, we were prepared to navigate through weaker demand conditions in key end markets and geographies. Our results reflect these persistent challenges, but they also underscore how we've managed through them by remaining disciplined and focused on strong execution and by taking decisive measures with our restructuring program to adapt to the changing market demand. We've adjusted our operations to align to lower overall volumes by aggressively managing our variable and fixed costs and driving efficiencies across our processing and mining activities. Our solid execution extended beyond our operational activities as we advanced several strategic initiatives that support our long-term growth. And I'll discuss these highlights in more detail later in my remarks.

From a financial perspective, total sales in the quarter were $450 million, and we generated $59 million of operating income. Margins remained at second quarter levels despite lower sales and a weaker product mix, a reflection of our operational adjustments and pricing actions to overcome cost pressures. Our restructuring activities are progressing well, and we're on track to achieve the full run rate savings of $12 million in the first quarter of 2020. Importantly, through all of this, our employees have remained focused on safety, operational excellence and delivering the high level of quality and service that our customers expect. There are weaker conditions in a few markets. Most notably the global foundry market, European refractories and North American Paper PCC. The largest sales decrease came in our Metalcasting business, which was affected by a softening demand from our global foundry customers serving the automotive, heavy truck, agricultural equipment and off-highway sectors. Paper PCC sales were lower due to the Port Hudson paper mill closure earlier this year, but we mitigated some of this impact through the ramp-up of our new satellite plant in Indonesia, which helped to increase sales in Asia by 11%. Additionally, our Refractories business was affected by the weaker European steel market conditions that we've been experiencing for much of this year.

Offsetting these market-driven sales declines, we delivered encouraging sales growth across several other product lines, increased volumes through capacity expansions and capitalized on customer interest in our innovative technologies. In Pet Care, our sales momentum continues to be supported by attractive private label market fundamentals as well as customer pull for our newest products, including fragrance boosters. Environmental Products had another strong quarter, most notable of which was operating income and margins more than doubled over last year. This demonstrates the success we're having with our strategy to drive margin expansion through sales of our newest high-value Environmental Products. Specialty PCC had a solid quarter driven by demand for our latest rheology-modifying sealant products, supported by capacity expansions in the U.S. and the U.K. And our Energy Services segment remained on a positive trajectory with sales and operating income up significantly driven by sizable projects completed in the Gulf of Mexico. Over the past several years, we've been expanding our portfolio of technologies in PCC to pursue growth in packaging applications. A highlight this quarter was a 40,000 ton agreement with a European customer to support their growth in a premium packaging application. This is one of many different opportunities where we can apply our value-added technology to the attractive packaging market. Cash flow generation in the quarter was strong with $60 million of operating cash flow and $44 million of free cash flow. We deployed this cash to both debt repayments and share repurchases. Year-to-date, cash from operations and free cash flow are up 20% and 40%, respectively. In addition, last week, we announced a new $75 million 1 year share repurchase program, continuing with our balanced approach and our commitment to returning capital to our shareholders.

We speak of operational excellence often. Our culture of continuous improvement is deeply embedded in our company and provides a strong operational foundation to ensure we are agile, nimble and always looking to do things in the least waste way. Underpinning this culture [are] (corrected by the company after the call) tools such as kaizens, standard work and our suggestion systems as well as the use of Hoshin Kanri to ensure clear organizational alignment with our strategy. It is this highly structured business system that enables us to continue to execute during challenging market conditions, while at the same time, staying focused on driving growth.

Last quarter, we provided our perspective on the dynamics and outlook for the markets we serve. And I thought it'd be helpful to go through this again and give you an update on what we're currently seeing. On the whole, market conditions we experienced during the third quarter were as we expected when we last spoke with you, although we're seeing a few areas where market demand has changed. I'll start with Performance Materials, which is our bentonite-based business. Household, Personal Care & Specialty Products, which serves consumer-oriented markets, has remained strong, with much of our growth coming from our Pet Care business. In addition, the markets for our Environmental Products are robust and we have a strong pipeline of upcoming projects as well as customer interest in our newest lining and remediation technologies. One area that's changed in this segment is our Metalcasting business, where orders from our foundry customers in the U.S., primarily serving the automotive and heavy truck sectors, weakened further during the third quarter. Several of our customers reduced production shifts in the quarter to account for the lower demand they are seeing for cast parts, and we expect this lower demand will continue in the fourth quarter. On the positive side, our overall China foundry sales rebounded in September driven by penetration of our blended greensand bond products.

Turning to Paper PCC. While overall North America and European paper market operating rates remain relatively stable, we experienced softer demand conditions in both markets during the quarter and see these dynamics lasting through the remainder of 2019. However, with 3 new satellites and 2 expansions under construction, we expect to add over 260,000 tons of additional capacity next year in Asia and Europe. And in Specialty PCC, market conditions for our newest high-performing products remain positive.

Moving to our Refractories business. The steel market in North America is relatively strong, but we anticipate several furnace relines in the fourth quarter, which will temporarily impact volumes. In Europe, however, weak steel market conditions have persisted all year and these conditions will continue into the fourth quarter. And in Energy Services, the market for our offshore deepwater services are stable heading into the fourth quarter and have improved considerably compared to last year. We're well positioned in each offshore basin to capitalize on the steady demand for our deepwater services. Last quarter, I laid out the broad range of opportunities in which we're investing for organic growth. This quarter, we made tangible progress advancing several of those opportunities.

I'd like to take you through some of those highlights and give you more color on the projects that will contribute to incremental sales growth next year. We've outlined several times how our Metalcasting business is a significant growth area for MTI. Fundamentals in large foundry markets in Asia, such as China and India, remain attractive for the penetration of our blended greensand bond formulations. Our tailored blended products provide the quality and value foundries require to help them capitalize on the growing demand for more technical, gray and ductile iron cast products. This past quarter, we further extended our penetration into the China foundry market as volumes of our blended products were up 13% over last year, a clear signal of the value they provide to foundry customers.

Shifting to PCC. We offer the world's premier PCC technology portfolio with products that help our customers increase base filler levels in paper, address environmental and recycling needs, and provide technologies for their premium packaging applications. And in Specialty PCC, we offer the highest performing rheology additives for automotive and construction sealants. This quarter, we made progress [in] (corrected by the company after the call) each of these 4 areas. First, we deployed our new variation of Fulfill, called Fulfill Plus, which is the most cost-effective technology to increase filler levels in paper by up to 5%. Second, we ramped up our Envirofil deployment for a PCC customer, which addresses the important sustainability challenge of paper recycling and deinking. Third, we signed a contract for a premium packaging application in Europe, expanding the application of our technology into the growing packaging market. Fourth, our Specialty PCC expansion has ramped up in the U.K. We plan to complete the capacity expansion at our U.S. facility in the fourth quarter. These expansions have supported robust customer demand for construction and automotive sealants, leading to a 30% increase in sales [of] (corrected by the company after the call) our newest rheology-modifying products in the third quarter. Asia continues to be an underpenetrated region for Paper PCC, with areas of significant demand growth and we're capitalizing on those fundamentals by building new satellites and deploying our latest technologies. We recently secured the permits to begin construction on our newest satellite in China, which will be our largest PCC plant when fully operational in 2020. And in India, where our volumes are up 12% year-to-date, we are constructing 2 new satellites and finalizing an expansion which will add 80,000 tons of new capacity. When these 3 plants and 1 expansion are operational, Asia will represent our largest production region for paper PCC and it will also be the region utilizing the broadest range of our technology portfolio. I visited several of our large paper customers in India during the past month, and had very encouraging conversations regarding their interest in our latest technologies, including exploring opportunities to further deploy our innovative portfolio of high filler and environmental solutions.

As I mentioned in the quarter recap, our strategy to shift our Environmental Products business from base geosynthetic clay liners to a portfolio of higher-value solutions is delivering results. And we are addressing more complex remediation projects. Highlighting this point - sales of our higher-margin advanced products such as Resistex are up 40% year-to-date. We have a strong pipeline of sizable projects contracted for the fourth quarter as well as the first quarter of 2020. FLUORO-SORB, our newest product, which addresses PFAS remediation, began selling commercially in the third quarter. And to date, we've conducted several positive trials with interested customers at a variety of remediation sites across the U.S. In our Household, Personal Care & Specialty Product line, our strategy is to grow in consumer-oriented markets through investments in higher-value solutions. We speak often about the growth of our global Pet Care business. But we also have a broad portfolio of other high-growth, high-margin specialty applications that serve consumer-oriented markets, such as Bleaching Earth, for edible oil clarification, and products for both the Personal Care and animal health markets. We've invested in technology, manufacturing and sales capabilities in these areas over the past few years. As an example, sales from our new Bleaching Earth facility in Turkey have increased 38% over last year. These are attractive markets for the application of bentonite, and we will continue to focus on accelerating the growth of these specialty products.

To wrap up my remarks, I'll end by saying that this past quarter was defined by strong execution on multiple fronts. Not only did we take several actions to adjust our operations and costs to the current market environment, but we also made tangible progress on a wide range of strategic growth opportunities.

And with that, I'll hand it over to Matt to review our financials [and] (corrected by the company after the call) fourth quarter outlook. Thanks. Matt?

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

Thanks, Doug, and hello, everyone. I'll review our third quarter results, the performance of our 4 segments and also provide you with our outlook for the fourth quarter. Third quarter sales were 3% lower than the prior year. The bridge at the top left shows the sales change by major driver. Foreign exchange impacted sales by $3.8 million or 1 percentage point. We drove price increases of $5.8 million in the quarter. However, these increases were partially offset by $3.8 million of lower market-based pricing for specialty sands, and resulted in a net price improvement of $2 million. The biggest driver of the decrease in overall sales versus last year was unfavorable volume and mix, primarily due to the continued market weakness in Metalcasting, European Refractories and North American Paper PCC that Doug mentioned earlier.

Moving to the sales bridge by segment. Performance Materials sales were $12.2 million lower than last year, primarily due to the Metalcasting product line. Specialty Minerals was $3.2 million lower on the previously announced paper machine shutdowns and lower processed minerals sales into the automotive and construction markets. Refractory sales were $5.7 million lower on continued weak steel market conditions in Europe and some softening in the U.S. And Energy Services sales grew $6.3 million on increasing filtration and well test activity levels in the Gulf of Mexico and internationally. The operating income bridge shows that the primary driver of the change in operating income was $7.4 million of unfavorable volume and mix. Sales growth in Environmental Products, Pet Care and energy services partially offset reductions in Metalcasting and Specialty Minerals. However, note that the growth in Environmental Products, Pet Care and Energy Services is at a lower relative margin, generating the unfavorable mix in the quarter. Raw material costs increased $2.6 million in the quarter due to higher ore costs primarily at our Western U.S. mines, which we mostly offset with pricing actions. In addition, we experienced other cost increases of $1.5 million, primarily related to mark-to-market changes.

Operating margin was 13.2% of sales, the same margin as the second quarter and compares to 14.8% in the prior year. Sequentially, we were able to maintain margins despite the weaker market conditions. And on an year-over-year basis, volume and mix had the largest impact, combining for a 120 basis point change. Pricing actions to recover inflationary cost increases contributed to 20 basis points of margin dilution. Earnings per share, excluding special items was $1.06 and our reported earnings were $1.08 per share. Special items in the quarter included a onetime tax benefit and legal expenses associated with ongoing litigation due to the 2016 bankruptcy of Novinda. Our effective tax rate was 19.3%. And for the full year, we are expecting our ETR to be around 19%.

And now let's review the segments in more detail, starting with Performance Materials. Performance Materials sales were 6% lower than the prior year, primarily driven by market softness in Metalcasting due to weaker demand in automotive, heavy truck and agricultural equipment in the U.S. and parts of Asia. There are 2 parts to our Metalcasting business, greensand bonds and specialty sands. Most of the decline in the Metalcasting product line was due to lower market-based pricing and volume of specialty sands. Metalcasting penetration continued in China, where greensand bonds sales grew 6% and in Thailand, where sales grew 9%. Household, Personal Care & Specialty Products decreased 3% as growth in our pet litter products was offset by lower sales in Fabric Care, Personal Care and Specialty Products. Note that as of this quarter, we are including Basic Minerals within our Household, Personal Care & Specialty Products line to better correlate with our product line management. In our earnings release, we provided historical sales by product line for 2018 and 2019 based on this new structure.

Environmental Products sales increased 3%, driven by higher volumes of our geosynthetic clay liners and specialty liners, including our higher-value Resistex products. Building Materials sales decreased 5%, primarily due to the lower North American construction activity. Segment operating income was $26.9 million. The reduction from the prior year was largely driven by $3.7 million of unfavorable volume and product mix. Note that operating margin was up slightly from the second quarter despite lower sales volumes and weaker mix, driven by our operational adjustments in the period and continued pricing actions. And looking to the fourth quarter, we see a very similar market condition to that of the third quarter, and we will experience the typical seasonal decline of 10% to 15% in operating income. In addition, we are facing some uncertainty in Metalcasting volumes regarding the extent of our foundry customers' downtime during the fourth quarter holidays.

Now let's move on to Specialty Minerals. Sales for this segment were 2% lower than the prior year. Paper PCC sales in Asia grew 11%, driven by the ramp-up of a new satellite and capacity additions. The growth in Asia was offset by 8% lower sales in North America and 2% lower sales in Europe on a constant currency basis. Specialty PCC Products increased 5% due to volumes from our demand-driven expansions. Segment operating income was $21.7 million. $2 million of the year-over-year change was driven by lower volume, including the paper mill shutdowns in North America and lower Paper PCC volumes in Europe. The balance of the reduction was due to higher mining and operating costs primarily in processed minerals. Looking to the fourth quarter, we expect continued growth in Asia from our PCC expansions as well as continued growth in SPCC. U.S. Paper PCC volumes will be lower due to Domtar's recently announced paper machine shutdown at Ashdown. This will impact our PCC volume by 30,000 tons annually, beginning in the fourth quarter. For Processed Minerals, we expect similar conditions sequentially, apart from the impacts of typical seasonality of 10% to 15% on operating income and the Ashdown volumes.

Now let's go to the Refractories segment. Refractories segment sales decreased 7%, primarily due to continued soft steel market conditions in Europe, fewer laser equipment sales and lower U.S. volumes due to several [basic] (corrected by the company after the call) oxygen furnace relines during the quarter. Looking to the fourth quarter, we expect similar market conditions with continued softness in Europe, and lower refractory sales in North America due to the [basic] (corrected by the company after the call) oxygen furnace relines that will temporarily impact our volumes. Overall, for the segment, we expect operating income to be similar to the third quarter.

Turning to Energy Services. Energy Services had another strong quarter, with sales up 33% and operating income up 43%. Sales growth was driven by higher well testing and filtration activity in the Gulf of Mexico as well as increased demand for our services internationally. We secured a large number of projects in the quarter as our Orca-lead produced water strategy is gaining traction and we are accelerating produced water opportunities in Guyana and Brazil. We expect this strong performance to continue into the fourth quarter, with operating income similar to the third quarter.

Now let's take a look at our cash flow and liquidity in the quarter. We generated $60 million of cash from operations in the quarter, bringing the year-to-date total to $159 million. We have deployed $52 million of capital expenditures this year, resulting in free cash flow of $107 million, up 39% from the prior year. We used our free cash flow to repay $32 million of debt and repurchased $11 million of shares in the quarter. And over the last 4 quarters, we have repaid over $100 million of debt. Our total liquidity is strong, with cash and equivalents of $215 million at the end of the third quarter and $200 million available on our revolving credit facility. We will continue our balanced approach to capital deployment and continue repaying debt to move toward our target net leverage ratio of 2x EBITDA.

So now let me summarize what we are seeing for the fourth quarter. In the fourth quarter, the majority of our product lines are tracking similar to the third quarter, with continued growth in global Pet Care and ramp-ups in PCC and SPCC. We've also experienced typical seasonality in Building Materials, Environmental Products and Processed Minerals. There are 2 exceptions to note: first, we will have lower U.S. Paper PCC volume due to Ashdown; and second, the uncertainty we have surrounding the extent of foundry customer holiday closures, which is hard to predict at this point. From an EPS perspective, we expect fourth quarter EPS to be around $0.90 per share, primarily reflecting the typical seasonality of our business. We anticipate another quarter of strong cash flow generation and expect to deliver our target of around $150 million of free cash flow for the full year.

Now let's turn it over to Q&A.

QUESTIONS AND ANSWERS

Operator

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

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

Wanted to start with Metalcasting. Obviously, a lot of moving parts between the geographies. But the -- what's the current breakdown mix in terms of revenue between Asia, U.S. and Rest of the world? And I know it's a crystal ball-ish type question. But given that mix in the various moving parts, when do you expect to get back to overall growth in that business?

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

Yes, why don't I kick it off and then I'll let Jon Hastings talk a little bit about it, Dan. Our Metalcasting business right now is almost -- with the growth we've seen over the past 5 years in China, almost 50-50 North America and Asia. Our North America volumes have been impacted this year. They're down this year, I think it's probably about 10% in total. But in Asia, our greensand bond volumes, as I mentioned, are up 13% in the quarter. So I guess your question is when do you return to growth? I think we've been consistently growing in China, albeit at slower rates than in the past. But the bigger volume and income impact because 100% of what we saw in North America is greensand bonds. A blend of blended products and clay in China. So the different profitability mix in China and Asia. But right now, it's a little bit hard to call when North America will return to growth. We see at least as far as we can see right now in the fourth quarter, things look similar to the third from market conditions in the automotive and heavy truck, though, we're a bit cautious, as Matt mentioned, that we might see some extended outages around the end of the year. That's why we're giving you a little bit of variation, at least as far as we can see in the fourth quarter. Going into next year, it's going to be really hard to call in terms of what automotive is going to do, heavy truck, I think we'll give you an update on that on our next call. But I gave you some feel. Jon, anything you want to add to that?

Jonathan J. Hastings - *Minerals Technologies Inc. - Group President of Performance Materials*

Dan, I appreciate the question. And Doug, I can elaborate a little bit, if you like. First of all, as you know, Dan, earlier in the year North America was quite robust. China demand had slowed around the [Chinese] (corrected by the company after the call) New Year. Southeast Asia was picking up some of the demand from China. But since then, what we've seen is some changes in those markets. And several of the industrial sectors have softened, as Doug had highlighted. And we've seen predominantly in automotive, but we've seen some of the other sectors come off a bit as well. Automotive, of course, is affecting many of our primary markets, U.S., China, Japan, India. Most of those markets worldwide. We highlighted the specialty sands. We've encountered a couple of new competitors because the pricing went pretty high in previous years. And that's caused, unfortunately, an oversupply in that market and caused some of the declining prices, and that's what kind of came off in specialty sands. So against that backdrop, we continue to work with our customers. As Doug mentioned, in China and Thailand our customers continue to demand the high-end products that we're providing. So our conversion strategy to the blended products continues to work. And we continue to stay in touch with all of our foundries worldwide, all of our customers. And so there's a lot of uncertainty. Some customers are saying, we're in a down market for the next month or 2 or 3, others are saying it's relatively flat. And so it's hard to read. And like I say, the major word right now that we're using is it's highly uncertain. We'll see how the holidays play out and what demand comes in as far as fourth quarter and into the first. Hope that helps. Hope that gives you some color.

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

I'm just going to pull on that string a little bit more. In terms of North America specialty sands. Can you give us a sense for whether it was more price versus volume? And in your experience, when demand comes back, does pricing tend to snap back relatively quickly?

Jonathan J. Hastings - *Minerals Technologies Inc. - Group President of Performance Materials*

Yes. North America and also China, the vast majority of the specialty sands softness was in China. We do sell into North America. We do have some specialty sands. And yes, you're right, it's predominantly pricing. But we've also seen volume come off based on demand. Pricing does -- it is pretty volatile. It can go up fairly quickly and it can go down very quickly. Right now, it's pretty low. As the market tightens up and the industry comes back, we expect that it will modulate some, how fast is hard to predict.

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

Very helpful. And -- yes. Go ahead. I'm sorry.

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

No. No, sorry. Dan. I was just going to say, I don't want to confuse things. But Matt mentioned in his comments that Metalcasting has 2 pieces, that greensand bond piece, which we talk often about in terms of penetration of that blended product, and the specialty sands which goes into stainless steel casting and Jon mentioned, primarily China. The biggest piece, I think our greensand bond volumes in the quarter were off about 1.5%. It was North America offset by that 13% growth in China. So it's kind of hanging in there. That growth in China is offsetting. So if you take that piece. Relatively stable and growing -- continue to grow in China. The biggest impact this quarter was the specialty sands piece and that was in China largely due to pricing had the outside impact on the sales decline.

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

Very helpful. And then switching to PCC, continue to win new satellites, you've got nice volumes coming in next year. The hole in the bucket in North America, when we kind of feel like we're at high levels of capacity utilization, overall volume keep coming down with the Domtar announcement. So I guess what does your crystal ball tell you for 2020 and post the Domtar, do we feel like we're at a new sort of big level in North America in terms of capacity? I know it's hard to say, but it does have implications for overall growth, given all that new volume coming up.

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

Yes. I can -- well, it is. It's the challenge that we've been in this business for many years, so we're used to it. We -- over time, sometimes, as you know, it's hard to predict which mill will close. But with the decline of paper, around 2%, 3% kind of on average over the past 10 years in North America and Europe, we tend to see a mill come out. We usually try to predict which one that might be, but we're not always successful. We did not expect that Port Hudson mill in the -- earlier in the year to come out. That said, we have been very successful in securing new contracts in areas where we see that opportunity to be, that is the underpenetration of filler in paper in Asia, primarily China and India. So the net-net of all this, we lost about 100,000 tons this year, but we're adding about 100,000 tons in Indonesia this year. Next year, we don't really see, we'll see kind of the annualization of what's happening, about 30,000 tons of Domtar we're going to see on an annual basis starting this quarter. We have 2 new satellites in India ramping up in the first quarter to offset that 30,000 tons.

Later in the year, we've got 2 new satellites coming on, one in China, which I mentioned, we just secured the permits. So we're beginning that construction. Should be ready in the beginning of the fourth quarter next year. And another one was Century Paper in India for another 40,000 tons. The net-net of that is 200,000 tons coming on next year.

So I gave you a bunch of numbers what we see right now, given all of those downs and ups is about a 3% to 4% volume growth in PCC next year -- sorry, currently looks like, highly dependent on if we see any other closures. And if those things come up on time, which they should. But right now, that's the crystal ball we have, Dan, is about 3% to 4% volume growth with all that we're bringing on next year and the annualization of what we just heard with Domtar.

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

Very good. Lastly for me, you, obviously, continue to manage costs very -- let's say, acutely. The annualized cost save. How much of that do you expect to generate in Q4 before we hit to sort of that full $12 million annualized run rate in Q1?

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

Yes. Dan, so from an overall restructuring perspective that we took earlier this year. And remember, we told you that we would achieve about a $12 million run rate beginning in 2020. We've now said that, that's going to be in the first quarter of 2020. And if you remember, there's really two components to that. There's the headcount adjustments that are now largely complete. Those are part of the ramp-up of those savings that are taking place now, getting to that higher annualized rate. And the fixed cost reduction, that was part of that program, was already complete. So right now, if you look at the annualized rate that we had in the third quarter, that was about $7 million, translates to about $1.5 million plus here in the third quarter on a year-over-year basis. So you're going to see a nice ramp-up going through the fourth quarter into the first.

Operator

Our next question comes from Jeff Zekauskas with JPMorgan.

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

It's Silke Kueck for Jeffrey. I wanted to, like, investigate, like, the PCC question one more time. So can you quantify how much of the 2 startups in the beginning of the year in India will be in terms of, like, size?

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

Sure. So we have a new small satellite. Actually, I don't think we announced this one, Silke. It's about a 15,000-ton satellite with a papermaker in India coming online probably at the end of the first quarter. We've got an expansion with the current customer in India that should come online early in the first quarter for about 25,000 tons. So that's between those 2 in India. In the first quarter, about 40,000 tons. Okay?

Later in the year, we have 2 satellites, another one in India and a large one in China. The one in India is another 40,000 tons, that's about Q3 should start up. And the one in China for 160,000 tons, probably the beginning of Q4, again, we just secured the permits, it'd probably take us a year to build it, and that's 160,000 tons. So about 200,000 tons coming online around Q4 next year, 40,000 tons in Q1. That's the 200,000 tons.

The last one that I mentioned is the new contract with a paper maker customer -- sorry, in Europe, around our packaging application. Right now, that's looking like probably, part of that will come online in the third quarter. And right now, it's looking like 30 of those 1,000 tons will be the end of the fourth quarter. Right now, it's really early on. We just signed the contract. So that's probably a fourth quarter end of year type of ramp-up. So it's about 240,000 tons next year.

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

Okay. And so the way it looks like is that if you really have a lot of volume growth, it would all come in the second half of the year because the Domtar closure headwinds will be sort of, like, offset when the plant [comes online] (corrected by the company after the call) in India? And then if everything starts up on time then maybe you have like a volume -- then maybe you have like a really big fourth quarter next year. Is that the way to -- is that like the right way to think about it?

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

Yes. From a capacity standpoint, that's when it's coming online, and those should be the volumes. That said, we've seen some solid demand growth. China so far has been about flat in volumes. North America and Europe, again, continued to be lower. But in India, we saw 12% volume growth. So there is some base volume growth in our system. So you'll have to add some of that to it. Right now, India was -- I think, we've got 7 -- this will be our seventh satellite in India in the past -- 7 satellites in India in the past 10 years. I was just looking at D.J. saying our first contract, it's coming to renewal, which is hard to believe how fast time flies, but we've really built up a nice position in India.

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

Okay. That's helpful. And is pricing in the offshore region is the same, so if you offset -- like if you were to offset all the lost U.S. tons versus tons in India and Asia, does that mean incremental sales growth? Or would the lower cost line have, like, lower price component and therefore, the sales of course will be lower than the 3% to 4% that you anticipate?

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

Yes. The way we like to look at it is the EBITDA margins on each of those tons -- the percentage of EBITDA is the same. The amount of EBITDA because there are lower capital costs in Asia and lower price points because of kind of the conversion of our raw materials are lower. So it does take more tons in Asia to offset a ton in Europe or a ton in North America. That is the case. However, I want to also highlight, though that it's not just about tons in paper, and filler and paper. Yes, we have the best technology, we feel in terms of filling paper, but we also have -- while we're there on 60 different satellites, we have opportunities. I don't want you to forget about increasing our margins and revenues with things like our new high-filler technologies, which we've just launched, Fulfill Plus. We're deploying into -- we have opportunities in packaging, which can be higher-margin opportunities and also some of our environmental like Envirofil and NewYield. And those are also a number of opportunities. So as we -- not only just in paper tons in and out, it's also these new technologies that we're executing on, that should help the growth in that segment and also the profitability in that segment.

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

That's helpful. But my second question is on your SG&A and R&D costs. So your sales were like 3% lower year-over-year, and your SG&A costs and R&D costs are sort of up year-over-year. Why is that? Or like where do we see the cost savings coming through?

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

Well, if you break it down, Silke, remember, the cost savings are going to be across all components of the P&L, right? So you have some in the COGS line, you have some in the SG&A line. Restructuring was largely focused at redundancies on some of our shared service organization as well as throughout operations. We, at the time, told you as well that we were keeping the sales force in place as well as our R&D capability in place. When you look on a year-over-year basis, you're actually seeing a few things take place. One, the mark-to-market impacts this quarter versus what you've seen previously in the year around compensation, equity compensation -- deferred equity compensation, I should say, was fairly significant, and that's the main driver on that line here sequentially and on a year-over-year basis. The normal SG&A that you're going to see from us is in that 50, 51 range.

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

Silke, can I add just a little bit to that? One, sequentially, expenses are down. So you're starting to see the -- you'll see the restructuring save, that mark-to-market that Matt just mentioned. So you're starting to see those savings come through. And yes, some of those savings are in the COGS line. The R&D is generally flat. We've -- I think this quarter, we had some more spending on trials. And those trials were primarily in Paper PCC. So you will see from time to time, some spikes in that R&D as we go through different trials with our Environmental Products business, as I mentioned, in Paper PCC. That will kind of spike it in any given quarter. But on -- in general, our R&D is kind of flat. So I think what you're looking at is a -- some trial activity in R&D. And some mark-to-market, but it's not a structural thing. I think you're seeing -- you start to see those costs come out of that SG&A line.

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

Okay. And lastly, I was wondering whether you can just give me that -- the D&A number in the third quarter, if you wouldn't mind?

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

Yes. D&A in the third quarter was $24.7 million.

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

Probably a good run rate...

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

Oh...

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

Yes, no, I was about to say it's probably a good run rate. I mean, if you think about it, Silke, the way that CapEx has been layered in through this year. Remember, we told you it was going to be in that $70 million to $80 million range. Right now, we did $52 million throughout the first 3 quarters, if you just bifurcate that across 3 quarters, probably looks similar in the fourth quarter. The big difference between that mid-60s and the $70 million to $80 million that we have been talking about is really the delay, deferral in the Chenming project, which is now going to start to be spent on. So continuing to lay out capital for good projects, both sustaining and growth and really just a bit of change here in terms of timing around Chenming.

Operator

We'll take our next question from Rosemarie Morbelli with G. Research.

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

I -- I got on the call a little late, so I apologize if you already discussed it. But when you look at the environment, are you seeing any signs whether it is -- while it may not be in the numbers, but at least anecdotally, showing that there may be some pickup in some of your end markets, if you don't mind going through the company as a whole, I mean pieces of the company?

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

Yes. I think there are some -- I tried to highlight those in my comments, Rosemarie.

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

Yes, which I missed it and I apologize.

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

That's okay. Sorry. There's no doubt that -- look industrial activity in our markets, again, North America, Europe and Asia has been lower. We do have a lot of -- number of product lines that serve the automotive kind of off-highway, heavy truck markets. And so as we've seen build rates decline about 2.5%, 3% in North America. We've seen a 12% decline in automotive in China, and we've seen even much deeper declines in India, to a lesser extent on us -- impact on us. Those have really impacted across some of the boards. Some of our talc products that go into plastics. Some of our base-sealing products, although the new ones are growing, and certainly in our foundry market.

However, on the other side of the ledger would be, we see very good markets in many of our consumer-oriented products like Pet Care. That has continued to grow at a good consumer-oriented base, around 4%, quarter-over-quarter, a very steady pace. We're starting to see some of our newer kind of near tendential projects -- products like our fragrance boosters, seeing really good take rates with our customers off-the-shelf on those. So we've got some really nice products and really good fundamentals in the Pet Care market. And I tried to highlight that Environmental Products business as well. We've been moving that business through R&D and trial activity to higher-value solutions, real solutions for different remediation products -- projects other than base landfills and municipal landfills. And we've been successful with that. And we've increased those kind of those higher-margin products by almost 40% this quarter, and we see the trajectory of those continuing through the fourth and into next year. So our Environmental Products business, our Pet Care business, though it may not -- we talk a lot about paper, we're really bullish on our paper markets as well with net 250,000 tons coming on next year. And the signing of contracts associated with our newest technologies. We've been working on these for years, but Packaging, Environmental Products, our new Fulfill products and new satellites, we're pretty positive on the growth in that business as well. Yes, we do have challenges in North America and Europe with paper consumption, but we've always faced that. We've been focusing on broadening our portfolio, and I think we're trying to show you that we're successful there. So we will make -- we'll work through the kind of the industrial I guess planing out that we're currently seeing. It's hard to see whether it's going to continue to go a little lower in automotive. Europe has been a challenge for us as well as others, primarily for us in steel. But we feel that with our Energy Services business, Pet Care, Environmental Products and even construction has been relatively positive. There's some good areas of growth for us in the business. So we're going to maintain our focus on keeping costs in control for that industrial part. But we're going to continue to also focus on making sure we capture the growth available in those growing markets.

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

Some companies have mentioned seeing some slight pickup in China or at least a stop of the decline. Are you seeing it at all?

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

We're not seeing a large pickup. I will say that our greensand bonds, our Metalcasting business in September picked up, albeit from a pretty low point throughout the end of the second, beginning of the third so we've seen some signs of pickup. I think that's largely due to some increase in build rates in automotive in China. I'm not going to go too far to say that that's a trend as of yet. But we did see some pickup in the automotive in our foundry business.

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

Okay. And then the Personal Care. Is that affected mostly by the talc issue? Or are there other reasons for the slowdown of the softness in that particular business?

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

No, no, the Personal Care is a bentonite based -- bentonite. It's in our Performance Materials business. These are additives -- it's a small business, but they are additives for rheology modifying for sun creams, they're bentonite based that have a delayed release action in kind of over the counter-type products. It's a small business. And I think probably the decline in Personal Care was due to some timing of some projects and nothing structural. But that's kind of one of our Bentonite based businesses.

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

And just from a -- because you mentioned talc, right? Just want to make sure, we don't have Personal Care products in our talc sales. So you're not really looking at those two things. Like I said, Personal Care for us is on the bentonite side.

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

Okay. So the fact that some asbestos has been found in some can -- I mean talc containers, would not affect your talc operations?

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

No. So look, we're -- we do not -- yes, we do not sell-in to Johnson & Johnson and body powder has been a very small piece of our business historically. So no, that doesn't affect us.

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

Okay. And looking at PCC, you have all of these volume coming up. And did I hear properly, is that -- okay, volume up 3% 2020 versus 2019. What is the pricing on that? I know that it will take more in order to recover the dollar amount because of your lower cost. Are you maintaining pricing on all of those volumes?

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

Yes. The absolute price point is a little bit lower for those newer tons. And that's because the cost points -- the input costs to our customers are lower. We can buy lime less expensively in Asia than we can in Europe, so to speak. And so the relative price points are a little bit lower. But from a return profile, Rosemarie, as we invest capital into a satellite the return profile of that project in China is the same as that return profile from a cash standpoint as one in North America or Europe or Latin America. So yes, from that aspect, we are.

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

Okay. And then looking at the recent mill shutdown in the U.S. Is it a permanent shutdown? Or is it only temporary? Can you tell? Or is the production going to be moved into another mill?

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

Yes. Let me hook D.J. in so...

D. J. Monagle - *Minerals Technologies Inc. - Group President of Specialty Minerals & Refractories*

Yes, Rosemarie, it's -- Domtar announced they would be changing the grades that, that machine makes from uncoated freesheet paper to a fluff pulp. So we would view that machine being down permanently, and it'll be a permanent reduction of the uncoated free sheet made in North America.

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

And you can move the -- your satellite equipment into one of those new satellites you have recently signed up for?

D. J. Monagle - *Minerals Technologies Inc. - Group President of Specialty Minerals & Refractories*

So Rosemarie, this particular shutdown is affecting one machine. There are still other machines that operate, and so we'll continue to keep that particular satellite open. Service that customer from that satellite. It does create an opportunity to pick up some small volumes on the periphery of that satellite. But no, we -- this particular satellite, we will not be removing or shutting down. It'll continue to supply the customer at that location.

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

One thing we have seen a dynamic this year. I know when we announced the Port Hudson closure, we thought that, that would -- that paper would be moved through North America. Paper mix that you saw this year is that, that production was consumed by imports. Now mostly from Europe, which is where we have satellites, I'll tell you that. And we'll probably expect the same thing to happen to this paper from Domtar.

Operator

We'll take our next question from David Silver with CL King.

David Cyrus Silver - *CL King & Associates, Inc., Research Division - Senior VP & Senior Analyst*

I have 3 points I'd like to touch on. First one, maybe a clarification. But the new Specialty PCC unit in Europe that you've discussed at several points here, am I correct in assuming that, that's not a satellite plant? And then if you could just provide a tiny bit more color on the benefits or the qualities that the PCC is going to be used for? In other words, is it replacing fiber? Is it replacing pigment, filler, some combination? Is it net new to improve the characteristics of the end product? Just a little more color on that specialty PC -- large Specialty PCC project?

D. J. Monagle - *Minerals Technologies Inc. - Group President of Specialty Minerals & Refractories*

It would be my pleasure to do that. So first off, this PCC and this new agreement that we have is actually going to end up being an extension of an existing satellite. So it's an existing customer that we have the arrangement with. Therefore our terms, conditions and general pricing is very consistent with what we have in Europe. The application is new and somewhat unique. The grade that it's going into that the industry will recognize as something called, white top liner. That's a premium grade in a linerboard industry, and the best way to imagine that is a brown on the -- box that is brown on the inside and white on the outside. My kids recognize it mostly as a pizza box. So that's the application that it's in. What we do is -- PCC is well positioned to bring unique value into that application by providing better coverage. So think of sprinkling that white fiber on top of that brown fiber, the opacity, the brightness that PPC delivers allows them to use less of that expensive fiber to still get a premium product. So that's the application to it.

I would say that, it's not the only place where we're trying this out, we've got some, what I would call advanced trials in -- with other locations making similar grades. And then Doug was also mentioning in general about our pursuit into packaging, that's -- we're not just targeting that premium grade. We've got trials going on in various stages around the world that include applying our NewYield technology into packaging grades. And then we also have some coating PCCs that are going on -- so think of it as an extension of a critical customer. By the way, that is a new machine going in there, so it's net growth to the industry. And then we've got some more opportunities in the pipeline.

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

And David, can I ask you a quick question. Were you -- there's two things going on in Europe. You said Specialty PCC and then you talked about a contract. So I just want to be clear, there's 2 things going on in Europe. One is a contract packaging application that D.J. just went through. The Specialty PCC in the U.K. is an expansion of our facility. That facility is -- when we say Specialty PCC, it's everything that's not paper. It goes into construction sealants, it goes into calcium fortification, it goes into automotive sealants, a number of different applications. It's usually submicron sized, we call it nano-sized PCC. That is a very, very specific application. I talked about rheology, that's an expansion in the U.K. for the sealant market -- automotive sealant market. Does that help?

David Cyrus Silver - *CL King & Associates, Inc., Research Division - Senior VP & Senior Analyst*

No. I'm going to have to review your comments, just -- I have a lot of static on my line, so I may have mixed those 2 up. But I was mostly targeting the 40,000 ton expansion.

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

Got it.

David Cyrus Silver - *CL King & Associates, Inc., Research Division - Senior VP & Senior Analyst*

That I believe was not characterized as a satellite.

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

Got it. That's an expansion.

David Cyrus Silver - *CL King & Associates, Inc., Research Division - Senior VP & Senior Analyst*

Okay. Yes. So the second question would maybe be for Matt. And I noted this quarter, very good cash generation, and a lot of the free cash was directed towards debt reduction, but some was directed towards share buyback. And I was just curious because I think a long-term goal of yours has been to get your net debt-to-EBITDA to 2.0. And I don't know, my model is not nearly as precise as yours, but I thought that the $11 million difference -- the $11 million on share buybacks probably made the difference between you hitting that 2.0 metric this quarter versus maybe not hitting it next quarter. And I don't know, to me that's a big round number that maybe the rating agencies or somebody on the Board is tracking. So could you maybe just comment on whether you did hit the 2.0 metric already and now you've got incremental financial flexibility. Maybe just if you could just discuss that issue?

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

Sure. And David, let's talk about it from what we've been communicating over the past couple of years and beyond that, is that we have a very balanced approach to how we deploy capital. Obviously, the first priority is to fund good growth opportunities within the company. And when we look at free cash flow, we look at a balance of debt pay down, returns to shareholders and then acquisitions. And so over the past couple of years, you've seen us deploy in a fairly balanced way across those 3 vehicles. If I put it into the perspective of what happened in the third quarter, just like you said, we paid down $32 million of debt. We repurchased $11 million in shares. As you are thinking about what that means for a go-forward perspective, we are very opportunistic when we see attractive valuations in our share price. And that's what we have been seeing, and that's obviously driving the share repurchases, and that will continue as we can find ways to deploy our cash opportunistically into the share repurchases. From a net leverage perspective, we're still at 2.2x. I would tell you that we are in the area of about $60 million to $70 million from that 2x net leverage target. We will continue to deploy capital in a balanced way, debt repayment, share repurchases, finding acquisition opportunities on our way to getting down to that 2x net leverage target.

David Cyrus Silver - *CL King & Associates, Inc., Research Division - Senior VP & Senior Analyst*

Okay. Interesting. All right. Last point, and I'll preface my remarks by saying, I know I'm going to ask you something that you're probably not going to be able to answer directly, but one of your major competitors has recently hit a major speed bump and there's been management changes or signals of a ratings downgrade -- it's a -- credit ratings downgrade, et cetera. And from your perspective, maybe with this company and maybe in your prior postings with Alcoa or Arconic, would I be incorrect -- or would I be correct in assuming that some of your competitors' customers may come knocking at your door looking to diversify their sources of supply. And if that is the case, I mean do you have the spare capacity? Do you have the -- I don't know, capability to surge, let's say, in response to new business opportunity in the areas where you overlap with that competitor.

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

Okay. Let me -- well, first, I'm going to say, I'm -- you're right, I'm not going to answer part of your question, I'm not going to address issues that our customers and our competitors, et cetera. What I will give you, David, is that we see -- regardless of that, we compete the same way. We do overlap. I think -- I know what you're talking about, we do overlap in some of those same end markets with a number of different competitors. But we are in different regions. And when they're -- if somebody is hitting a speed bump, I don't think that, that necessarily creates or takes away any opportunities for us. We compete for the customers based on the value we have, based on what we feel we can deliver to that customer in terms of a product. And so we look at the opportunities out in the market with customers and the ones we overlap and the ones we don't, it's the same way. So we see opportunities around the world for our products. We're pretty laser-focused on what those are, and we're going after them. I'm not going to necessarily comment on issues that our other competitors might have. If that helps.

David Cyrus Silver - *CL King & Associates, Inc., Research Division - Senior VP & Senior Analyst*

Okay. So just -- and just to wrap up. I mean, in your opinion, the competitive dynamic in the global industry in particular areas where you might overlap with that other competitor has not significantly changed in the last month or so?

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

I think -- look, I guess, and I think we operate in similar markets to a number of our competitors. I think our positioning is different from them. We're in North America, so the dynamics that might be occurring elsewhere in the world where they have larger positions than where we do in North America. The dynamics are not one to one. We're competing for similar customers, and we're going to continue to compete for those customers like we normally do. That's what I'll give you.

Operator

And at this time, I'd like to turn the conference back to Ms. Buckwalter for any closing remarks.

Cindi Buckwalter - *Minerals Technologies Inc. - Head of Investor Relations*

Thanks, Brad. Thanks, everyone, for joining us today. We look forward to speaking with you again very soon. Have a great day.
