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MTX - Q4 2018 Minerals Technologies Inc Earnings Call

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PRESENTATION

Operator

Good day, everyone, and welcome to the Fourth Quarter 2018 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*

Thank you, Paula. Good morning, everyone, and welcome to our fourth quarter 2018 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 to questions.

I would like to remind you that beginning on Page 13 of our 2017 10-K, we list the various risk factors and conditions that may affect our future results. I will 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 for the introduction, Cindi, and good morning, everyone. Thanks for taking the time today to join us, as I walk you through our results for the fourth quarter and the full year of 2018.

I'll give you my insights on the past year, along with our key achievements, and then Matt will provide more details on our financial results and outlook for the first quarter of 2019.

After that, I'll conclude with my perspective on 2019, and the most notable trends we're seeing across our businesses.

To put 2018 into perspective, what we're most encouraged about is our team's ability to advance our growth strategy and deliver strong financial and operating performance, while having to contend with a number of challenging conditions.

Our performance this past year is a testament to our continuous improvement culture and to the MTI employees who are the backbone of it. The alignment of our entire organization behind our culture, values and performance objectives has been instrumental in expanding MTI's leadership positions in many key markets, product lines and geographies.

Now let me take you through some of the highlights of the fourth quarter. We delivered earnings per share of $1.17, a 6% increase compared to last year, and we achieved 5% EPS growth for the full year. Total sales for the quarter increased 4%, marking our sixth consecutive quarter of sales growth.

I'll provide more detail in my full year remarks on what's driving our growth and our confidence in the trend continuing.

Sales in the Minerals businesses grew 3% in the fourth quarter, much of this driven by our Performance Materials segment, which grew sales by 6%. Despite the recent slowdown in the China automotive market, our Metalcasting business drove higher volumes of greensand bonds across Asia and North America, resulting in 6% sales growth.

Household and Personal Care sales increased 50%, with the contribution of Sivomatic, and continued solid growth of our pet care products in North America and Asia.

Performance in our Service businesses was solid as well, with sales growing 6%, driven primarily by higher volumes of refractory products, supported by strong steel market conditions.

Total operating income for the quarter was $64 million, and we delivered double-digit operating margins across all segments.

Our cash flows were also strong with the fourth quarter being our highest cash generating quarter of the year.

A key takeaway for the fourth quarter as well as for the year is our ability to tightly manage what was in our control. Higher raw material, energy, and logistics costs persisted through the fourth quarter. However, our pricing actions and operating performance, driven by strong productivity improvement and tight expense control, allowed us to more than offset these inflationary costs in the fourth quarter as well as for the second half of the year.

And as I mentioned, we continued to make progress on our growth initiatives which I'll talk about in more detail shortly.

Here is a chart that shows our quarterly EPS performance for the last several years. As I mentioned earlier, our EPS for the fourth quarter was up 6% compared to 2017, continuing our earnings growth trend.

This chart shows our full year earnings trend. 2018 marked the ninth consecutive year of record earnings for MTI, a reflection of our company's ability to successfully execute on opportunities as well as navigate the challenges faced over the past several years.

Before getting into the specific highlights and how we achieved our top and bottom line results, I'd like to provide a brief overview of 2018. It was a challenging year, but I'm proud of what we achieved, and the resiliency our team showed. Our foundation, business fundamentals and key growth drivers are on solid footing.

Sales increased 8% over last year to $1.8 billion, a record sales level for the company, and our earnings per share grew 5% to $4.84. Sales in all 4 of our segments increased during the year, and we made significant progress on all 3 facets of our growth strategy: geographic expansion, new product development and acquisitions.

From a geographic expansion standpoint, Asia continued to be a strong growth region for us, given the large market opportunities we have there in Paper PCC and Metalcasting. These are 2 product lines I've highlighted on previous calls, and for good reason. They continue to provide attractive near- and long-term expansion and penetration opportunities to drive growth.

Over the past 2 years, we've secured contracts for over 400,000 tons of PCC capacity, 165,000 tons of which was secured during the past year.

Our penetration strategy for Metalcasting in Asia also continues to progress, with sales in the region up 7% over last year.

As I've mentioned in the past, we have significant growth prospects for our Metalcasting business in Asia. I'm encouraged with how we've been able to leverage our deep technical expertise and value proposition to capture new opportunities with foundry customers in the region.

Geographic expansion is occurring throughout Asia as well as other regions, across multiple product lines. To highlight a few places, we saw double-digit sales growth in India, Turkey, Indonesia and Thailand. India led the way with sales up 24%, driven primarily by Metalcasting. Sales in Turkey were up 14%, driven by both Metalcasting and Refractories. Indonesia sales grew 21% as a result of increased Paper PCC sales and sales in Thailand were up 11%, driven by both Metalcasting and Household and Personal Care.

The second aspect of our growth strategy, innovation and new product development, has always been a key focus area for MTI and our actions to drive accelerated new product development are paying off.

We have a robust pipeline of innovative value-added products that continues to be strengthened as we better leverage the voice of our customers, emphasize speed of development and utilize standardized processes.

This past year, we commercialized 35 new products and increased the speed of development by 21%. These products have the potential to deliver over $100 million in revenue.

Additionally, the amount of revenue we generated in 2018 from our new product pipeline increased by 13% over last year. We continue to improve the speed of development and the revenue derived from our new products. I've highlighted many of our new products throughout the year such as the launch of FLUORO-SORB, Envirofil and variations of our NewYield technology.

We've created these specifically to meet the demands of our customers, who require environmental, sustainable and recycling solutions.

And lastly, we also executed on the third part of our growth strategy, acquisitions, through the addition and successful integration of Sivomatic. Sivomatic met all of our M&A criteria and is an excellent strategic fit with our company. It doubled the size of our pet litter business, expanded its global reach, brought additional premium products to our portfolio and increased our bentonite mineral reserves around the world.

Sivomatic is performing above our expectations and we see additional opportunities to leverage it and extend our global customer reach.

We purchased the company, integrated it and largely paid down the acquisition debt in a 6 month time frame which is a clear indicator of our financial and operating capability to grow inorganically.

Turning to our operating performance, we had a strong year. We overcame difficult mining and operating conditions in the first half of 2018, and ended the year with a 6% overall productivity improvement, which is the ninth consecutive year of achieving 5% or higher. We also maintained tight control of our costs, holding them flat over 2017, while absorbing the full Sivomatic overhead.

As we've discussed throughout the year, a number of external dynamics weighed on our businesses and margins, the most significant of which was rising materials, logistics and energy costs. We took decisive actions to mitigate these costs, including diversifying our raw material sources, utilizing our internal logistics capability, leveraging our close relationships with suppliers, reducing costs and increasing prices. These initiatives began to take hold in the middle of the year, and we finished 2018 on an upward trajectory with our performance more than offsetting these inflationary pressures.

The situation during the year played out as we described it would with margins improving in the second half.

There were other external factors such as tariffs, currency fluctuations and rising interest rates, all of which our organization successfully navigated.

Our continuous improvement culture is the foundation of MTI and its importance to driving performance couldn't have been clearer than during the past year. Our employees across the globe demonstrated their deep level of engagement as they were instrumental in helping MTI solve the challenges we faced through suggestions to reduce costs as well as hosting Kaizen events designed to remove waste from our processes, all of which helped drive productivity improvements and expense reduction. These efforts by our employees across the company underscore how we can successfully leverage our operating platform to mitigate pressures on our performance.

Shifting to our capital deployment activities in 2018. We maintained a strong balance sheet through our disciplined approach to capital allocation. Free cash flow grew 9% over last year, excluding the tax efficient pension contributions we made, and we deployed that cash in a balanced manner. $76 million of this cash was used to fund high-return organic opportunities as well as to maintain and improve the performance and safety of our facilities. We used a portion of our cash to acquire Sivomatic, and also returned $29 million to our shareholders through share repurchases and dividends.

All in all, 2018 was a solid year for MTI. Though we faced some distinct challenges in our operating environment, I'm proud of what our team accomplished, especially on the growth, cost reduction and continuous improvement fronts. We've laid the foundation for profitable growth and operational improvement heading into 2019.

With that, let me turn it over to Matt, who will take you through our financial results and outlook in more detail. After Matt's remarks, I'll come back and conclude with what we're currently seeing for 2019. Matt?

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

Thanks, Doug, and hello, everyone. I'll review our fourth quarter and full year results, the performance of our 4 segments, and also provide you with our outlook for the first quarter.

Fourth quarter sales grew 4% versus the prior year, or 5% after adjusting for foreign exchange. Our sales growth was driven by higher pricing and higher volume across several product lines as well as the acquisition of Sivomatic.

Gross margin was 25.2% of sales versus 26.5% in the prior year as we continued to face higher raw material, freight and energy costs. We'll detail for you in a few minutes how we are strengthening our margins and advancing on recovering inflationary costs.

In the fourth quarter, we reduced both the absolute and percentage SG&A year-over-year, including the addition of Sivomatic overhead. SG&A costs were 10.9% of sales in the quarter, a 100 basis point reduction from the prior year.

As the operating income bridge shows, profitable growth and the actions we have taken on price, productivity and expenses, generated $13.5 million of business performance, which more than offset $12.3 million of cost increases in the fourth quarter. Overall, operating income increased 2% versus the prior year to $64.1 million.

Earnings per share grew 6% to $1.17, driven by the solid operating performance as well as a lower tax rate.

Reported earnings per share were $1.22. The difference of $0.05 per share is primarily due to a onetime benefit from adjustments related to the U.S. tax law change.

Let's move to the full year. For the full year, sales grew 8% to $1.8 billion, driven by growth across all segments. Notably, Metalcasting sales grew 12% on higher volumes of greensand bonds in North America and continued penetration in Asia.

HPC sales grew 47%, primarily due to the contribution of Sivomatic, higher pet care revenue in both North America and Asia, and increased European Fabric Care sales.

Refractory segment sales grew 12%, driven by higher Refractory product volumes in North America and Europe as well as higher pricing.

Gross margin for the full year was 25.6% versus 27.9% in the prior year. As we've previously discussed, higher raw material, freight and energy costs were the primary drivers of the year-over-year margin decline.

SG&A as a percent of sales was down 90 basis points, as we managed expenses tightly throughout the year.

Operating income was 2% lower than the prior year, driven by $41.4 million of inflationary cost increases. We mostly offset these increases with $37.1 million of business performance, which includes necessary pricing actions. Operating margin was 14.4% in 2018, 140 basis points lower than the prior year.

Revenue associated with cost pass-through diluted margin by 30 basis points, while the net of inflationary costs and higher business performance reduced margin by 110 basis points. This margin dilution is reversing as our pricing actions are overcoming costs, and we expect margins to improve over the course of 2019.

Lastly, earnings per share for the full year grew 5% to $4.84, which is a record performance for the company.

Now let's take a closer look at how we are recovering inflationary costs. As you're aware, we faced significant increases in raw material, freight and energy costs throughout the year. The major raw materials that impacted our businesses were lime in Paper PCC and magnesium oxide in Refractories. Freight rates and truck and rail availability impacted logistics costs across our businesses, and higher energy rates impacted production and mobile equipment fuel costs.

As shown by the red bars in the chart, we experienced significant cost inflation in the first half of the year, which accelerated by $9 million in the second half. The green bars in the chart show that our business performance lagged the inflationary cost increases in the first half. However with improved pricing, some of which was contractually lagged, productivity and profitable sales growth, business performance increased by $17.1 million in the second half and exceeded the higher inflationary costs that we faced.

Looking ahead, we're diligently managing what is in our control, driving pricing, productivity and cost control, all of which will help us advance our margins.

Now let's review the Performance Materials segment in more detail. Performance Materials sales increased 6% in the fourth quarter compared to last year. Sales improved on 6% higher Metalcasting and 50% higher HPC sales due to the contribution of Sivomatic and increased pet care sales in North America and Asia. This growth was partially offset by lower sales in Building Materials resulting from fewer large projects and a decrease in Basic Minerals due to prior year bulk chromite sales.

In the quarter, the business absorbed $4.2 million of higher raw material and logistics costs, which we more than offset with $5.3 million of higher pricing, productivity, cost control and the full integration of Sivomatic.

Segment operating income increased 4% to $29.2 million and operating margin was 14.1% versus the prior year of 14.4%.

Looking to the first quarter, pricing actions will largely mitigate continued logistics and energy inflation. Also, HPC will benefit from continued strength in the pet care and Fabric Care markets, while Building Materials and Environmental Products will experience typical seasonality.

In Metalcasting, we're seeing a slowdown in China automotive production, which is impacting our customers' casting production volume. However, we still expect positive overall growth in our Metalcasting business in China, driven by further penetration of our value-added greensand bond products. We've also seen some casting production shifting from China to Southeast Asia and Europe as a result of global tariff changes. In addition, the U.S. foundry market continues to be stable. Overall, our global Metalcasting footprint positions us well to pick up these geographic shifts in volume. Now for the segment, we expect operating income in the first quarter to be similar to that of the fourth quarter.

Let's turn to our Specialty Minerals segment. Specialty Minerals fourth quarter sales were down 1% year-over-year at $142.5 million. In PCC, 2% growth in Asia and 3% higher Specialty PCC sales partially offset the previously announced paper machine shutdowns in North America. Processed Minerals sales were flat versus the prior year as sales to the automotive industry remained strong while sales to the construction markets in the U.S. and Europe were slower.

Segment operating income was $21.9 million, down $1.4 million from last year. The segment faced inflationary cost increases of $4.1 million, driven by higher energy and lime costs, which we partially offset with $2.8 million in business performance.

As I mentioned last quarter, we absorbed higher lime costs in the fourth quarter that we will recapture with contractual price increases in the first quarter. However, we are seeing higher lime pricing continuing into 2019, and we will be recapturing these costs on our typical lagged basis.

Turning to the first quarter. We expect lower volume in North America and continued growth in Asia. The recent announcement of the closure of the Georgia-Pacific Port Hudson facility, however, will impact Paper PCC volumes in North America starting in the first quarter of 2019.

Based on our analysis and customer feedback, we do expect a portion of these paper volumes to eventually be absorbed by other producers where we have satellite facilities. We will continue with pricing actions to recover higher energy and logistics costs, and we expect more moderate growth in our automotive markets. Typical seasonality will impact construction activity with sales expected to pick up in the spring.

For the segment, we expect operating income to be $1 million lower than the fourth quarter, primarily due to the lower volume in North America.

Now let's turn to our Refractories segment. Refractories segment sales increased 9% in the fourth quarter, and operating income increased 6%. Refractory product sales were up 14% on continued strong steel utilization rates and higher pricing. This segment faced $19 million in higher raw materials and energy costs over the course of 2018, primarily driven by magnesium oxide and other refractory raw material increases. Despite these challenges, Refractories achieved record operating income for the full year due to a proactive sourcing strategy, value added product substitutions for our customers and necessary pricing actions.

Looking to the first quarter, we expect continued strong conditions in North America. However, we are seeing signs of slowing steel production in Turkey. In addition, while we expect another strong year for laser measurement equipment sales, we plan to deliver fewer units in the first quarter. Therefore, we expect operating income to be lower by $1 million sequentially.

Let's move to Energy Services. Energy Services sales were slightly lower in the fourth quarter compared to the prior year and $1 million higher sequentially.

Operating income grew to $2.3 million as offshore market activity has moderately improved, and we are participating in larger longer-lasting jobs. Operating income in the first quarter is expected to be similar to the fourth quarter, and we see a healthy pipeline of projects for the first half of 2019, particularly in filtration equipment sales.

Now let's review our liquidity and debt highlights. We continued to generate strong cash flow in 2018, and we deployed our cash in a balanced way across internal investments, the Sivomatic acquisition, debt repayment and returns to shareholders.

Cash from operations was $204 million in the year. This included $15 million of incremental discretionary pension contributions that we made to take advantage of a one-time tax savings opportunity. We deployed $76 million of capital expenditures spread across high-return projects, sustaining our operations for future profitability, and environmental health and safety projects to ensure a healthy and safe environment for our employees and other stakeholders.

We acquired Sivomatic for $123 million, using both cash on hand and debt. We also repaid $80 million of associated debt to end the year with a net leverage ratio of 2.2x EBITDA.

Finally, we returned $29 million to shareholders through share repurchases and dividends. Total liquidity for the company remains strong at $413 million comprised of cash and equivalents of $213 million and $200 million available capacity on our revolving credit facility. Our balance sheet remains strong, and we have the liquidity to continue our balanced approach to capital deployment.

So now let me summarize what we expect for the first quarter. In Performance Materials, we expect our actions around pricing, productivity and cost control to offset logistics and energy inflation. In Specialty Minerals, we expect continued growth in Asia and contractual price adjustments related to lime cost increases in 2018. We will also take additional pricing actions as inflationary cost increases continue.

We expect operating income to be $1 million lower sequentially, due to a combination of higher lime costs and the volume impact of the Port Hudson closure.

For the Refractories segment, we expect strong conditions in North America and Europe to continue. We expect operating income to be $1 million lower sequentially, due to softness in the Turkey steel market and the timing of laser measurement equipment sales.

For Energy Services we expect a similar level of offshore activity. The cold snap in the U.S. is expected to result in supply chain delays and increased logistics costs, and in addition, foreign exchange translation is expected to be unfavorable relative to prior periods.

In total then, first quarter earnings per share is expected to be around $1.10. While we are seeing a slower start to the year, we expect the growth opportunities we have created to deliver another year of solid earnings growth for MTI.

Now I'll hand it back over to Doug, for our perspective on the year ahead.

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

Thanks, Matt. Before moving to Q&A, let me provide some high-level themes on the year ahead. First and foremost, our team is energized, focused and prepared to build on the momentum from 2018. We will continue to pursue our growth strategy, strengthen and deepen the value realized from our operating culture and execute on the opportunities we generated last year.

The global economic backdrop that we face in 2019 is different from what we experienced in 2018. From a macro perspective, we're seeing slowing growth rates in China as well as more modest growth rates in Europe. However, we still expect relatively positive markets in the U.S. across most of our product lines. Within this backdrop we're confident in our ability to advance a number of key growth drivers that I've discussed today.

Our Paper PCC expansion strategy in Asia will continue to build momentum with the addition of 300,000 tons of PCC capacity coming online, driving volume growth later this year and into 2020.

In addition, we have a robust pipeline of satellite targets and new technology opportunities globally and expect to secure additional Paper PCC contracts this year.

In our Metalcasting business, we anticipate another solid year and expect overall volumes to continue to grow in China, primarily through strong penetration of our greensand bonds. We see significant opportunities to grow our global pet care platform through increased demand for our products and by leveraging the Sivomatic business to expand our market positions. And we'll be accelerating our new product development and commercialization efforts, geared toward providing our customers higher value solutions to address their needs.

There will be some cost inflation challenges in the year ahead. But as we demonstrated last year, our strong operating performance, along with the necessary pricing actions and cost control measures, should drive continued margin improvement throughout the year.

MTI is entering 2019 with strong alignment on all fronts. We are aligned on our strategy and objectives, we are focused on building MTI for the long-term with profitable growth, strong earnings and high returns for our shareholders. We're a company to be counted on in all parts of the economic cycle for our strong operating culture, our solid balance sheet and our ability to closely control costs. All of this gives us confidence that 2019 will be another year of profitable growth for MTI.

With that, let's open the call for questions.

QUESTIONS AND ANSWERS

Operator

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

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

I want to start out -- I guess, kind of the bridge between the two, the Q1 guide and then, Doug, the more optimistic sort of outlook for the full year as we look into '19. Earnings growth as -- on a lag saw top line growth for a few quarters, that reversed your -- this quarter, but looks like Q1, few challenges, once again. So you talk in general terms about continued operating expansion in the coming year. What are the puts and takes that you see? And what kind of range of sort of pretax or EBIT margin expansion do you think is reasonable to think about for fiscal '19?

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

Yes, I think, to answer the first part of your question, Dan. First piece of it was, look, we are seeing a little bit of a slower start to the year. We've got a couple of challenges, just recently, actually, with some of the cold temperatures, freezing up some logistics, and we're working through that right now. We expect that might be little bit of a cost to us in the quarter. But we did see some, right out of the gate in the first couple of weeks of the year, some slower pull from some of the markets. We don't see that, that's going to continue. Foreign exchange, Matt said that over the past several quarters, that started to become a little bit more of a drag but -- so we think it's a little bit slower start to the quarter in the guidance we gave. But what I'm trying to contrast there is, we've got a lot of things coming at us for the rest of the year. The pricing actions that we know will take hold. We're building, we have some expansions that came online, we see some strong pull from customers in our newest products. Some of our new commercializations that were -- new products commercialized late last year, we feel have some good traction moving into the year. Later this year, 300,000 tons of capacity in Paper PCC is going to be coming online. So there's a number of kind of forward upward momentum that we started last year, that will continue to take hold through the year that we think will offset kind of the slower start and continue to drive those earnings.

As far as margins, we think, at a normalized rate, this company, certainly at 15%. Can I tell you that, that's going to happen this year? I think as we see costs continue to go up, Matt mentioned, contractually, we're going to lag a little bit there. We see they might plane over towards the second half of the year, and I think we'll catch up. I think as we get to kind of average pricing, those normalized margins will get back to 15%. So do I see the end of our cost inflation? No, I haven't seen it yet. I think that's going to continue through the first half, but should that go over, I think we started with our pricing actions, operating cost structure will get back to that kind of normalized rate of 15%.

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

Very helpful. The Port Hudson, with the impact of the closure. Can you give us a sense for both Q1 and full year '19, their tons and their revenue on the year-on-year basis?

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

Sure. I think last year, that facility -- over the past couple of years has probably bounced back between 70,000, 80,000 tons of PCC. What we know now is that, that's going to start to ramp down this quarter. I think probably late February, March. As that will impact the quarter, as Matt mentioned, we do though -- one of the things that's interesting about this is, with operating rates -- this closure came with operating rates in North America in the low 90s, around 90%. Typically we see a closure like that as you've seen in the past, you've seen something when their operating rates dip below around 80%. So this was a little different. And what we're feeling right now is some pull from customers, PCC pull from other customers, and that gives an indication that this paper is probably going to shift around. We're not exactly sure of that yet. We don't have any indication exactly where, but we're getting some customer -- higher customer pull from PCC in other facilities, which leads us to believe that probably some of this will be absorbed elsewhere, and most likely, where we have some facilities. I can't give you the full impact on the year, but that's the range it was in terms of total tons for last year.

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

Very helpful. Understood. And then maybe one more, and I'll jump back into the queue. In terms of -- just looking back at the quarter, Basic Minerals, are we through now with tough comps as far as chromite is concerned? Do we have any revenue in Q1, Q2 of '18? And besides chromite, was there anything else that sort of contributed to the decline in Q4? Maybe a little sharper than what we've experienced in the last few quarters.

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

Dan, you characterized it the right way. We are done with both chromite impacting us on the revenue and on the operating income line within Basic Minerals. So you won't see that going forward in the quarter. It did have a little bit of a drag, as I spoke to, but on a go-forward basis, fully out. Beyond bulk -- hold on, beyond bulk -- sorry, I just remembered you asked -- anything else can be placed in Basic Minerals. Beyond bulk chromite what you have in the other parts of Performance Materials, you do have some drilling fluids that go into the Permian Basin for the energy markets. And you are starting to see with a little bit of a drilling slowdown and some of the rig counts coming down on-shore, that some of our business may be slowing a bit related to drilling muds in the energy sector.

Operator

And moving on, we'll go to Silke Kueck with JPMorgan.

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

I was wondering whether you can identify that what the magnitude of the price increase was this quarter. And how much freight pass-through contributed to sales? And also, what the magnitude of like the Sivomatic acquisition was on sales this quarter?

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

When you step through the bridge on the 4% increase, you did have that FX that went against us by about 1%. Pure price pass-through related to freight and lime was 1 percentage point. And then you had other pricing that we were driving, which was about another 2 percentage points. The remainder of that is really the net from lower bulk chromite sales and the addition of Sivomatic in the quarter.

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

Total Sivomatic sales for the year included in our results is about $62 million on an -- that's only 9 months, 8 months, I think it was. So on an annualized rate, it's about 4% higher than what we had described when we purchased the company back in April. So that gives you a rate. That's why we're saying, Sivomatic is really performing well for us. It's still growing sales, and we've seen strong performance out of it for the 8 months that it's been part of the company.

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

Secondly, what's the your total PCC production capacity? Like, how many tons did you make in 2018?

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

Capacity or tons? Yes, we're selling around 3 million tons, I think, in total for the year capacity. We generally run pretty high end in that capacity. We're probably -- 85%, 90% is typical. We make sure that we have enough room in there for high filler technologies when we deploy them. We have enough room for customer growth and expansions, and also some of that is just an efficient capital deployment. When we build the facility, we have a -- half of a carbonator, or you're putting it in. We run about 85%, 90% total capacity. I can't give an exact capacity number, but that's around it.

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

Okay. Helpful. And lastly, so yet again, like the SG&A cost you managed very well given all the headwinds and given the acquisition. Do you think you have the right headcount? Or do you think you may need more people to grow the business as you expand like bentonite offshore with the foundries for Metalcasting in China and India and other opportunities?

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

Yes, that's -- I mean, the question you're asking, do we have the right headcount? I think, we have not held back on headcount required to ensure that we're efficiently growing sales, producing our products, innovating, et cetera. That said, we are always looking for opportunities. And I don't want to call it just in heads, just in discretionary expenses, we are always looking for ways to leverage our platform that we have in the company through shared services and our resource units. We want to make sure that sales deployment, as we grow, we are not -- we don't feel we need to incrementally grow that overhead fixed cost base. We put in a system to be able to leverage it, and that's what we look to do. How that ends up in number of heads? No, we're always looking at opportunities and making sure that they have the right horsepower and people power to make sure we're secured. So I can't really tell you whether we have the right or not but we're in the context, we're open to making sure it's the right headcount for what we need to do and execute our strategy.

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

And Last question for Matt, if I may. Like, will you plan to continue your share repurchase program in 2019 to serve like goal what you want to accomplish in terms of what you're going to return to shareholders? And do you have a free cash target in mind for 2019?

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

Yes, Silke. So if you recall, in 2018, free cash flow ended up being $128 million. But I'm going to go ahead and add back the discretionary pension contributions, in my view. So that gave us about $143 million in overall free cash flow. With that, I think we detailed for you -- look, we acquired Sivomatic, we paid down $80 million in debt, we returned about $29 million in shareholder value, that included $22 million of share purchases. Those were done on an opportunistic basis and we will very much keep the opportunistic stand going forward. Looking into 2019, we're targeting a higher level of free cash flow generation in that $150 million range, and will continue to manage that with a very sound, balanced approach, making sure that our balance sheet approaches our target level of 2x net leverage against EBITDA as well as funding strong investments within the company organically, looking for inorganic opportunities and making opportunistic share repurchases and returns to shareholders.

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

Yes, I think so, but to just to add to that, just to add to that. We've always taken the approach that says internal MTI investments in growth are probably the #1 focus of the company. So steering our cash to our organic opportunities around the world. Would that make sense? High return, and also, to maintaining our facilities. We balance then -- keeping our balance sheet in the right spot. And as we see acquisition opportunities kind of move up and move down, come forward or wane, we look opportunistically to steer that capital as they wane toward shareholders, and share repurchases are the mechanisms we use. So we're going to continue with that approach. We have what we see is a -- we meet regularly to talk about acquisition opportunities. I can't give you anything that -- where we are on those, but it's a healthy pipeline of things that we continue to look at. And as they move forward, and as they make sense for the company, similar to the type of acquisition like Sivomatic, we think that's a -- strategically that's where we see value to deploy cash. Outside of that, we can move it back to shareholders through share repurchases. Hope that helps you frame it up.

Operator

And next we'll go to Steve Schwartz with First Analysis.

Steven Schwartz - *First Analysis Securities Corporation, Research Division - Analyst*

First question. Just with respect to freight costs, I want to make sure I understand clearly when you talk about -- you mentioned in the prepared remarks, higher rail, but I'm also wondering if the expansion in the growth you're seeing in Asia isn't also a part of higher freight costs? Or is that considered a completely different element within the discussion?

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

No, it's part of it, Steve. I think, the majority of our higher freight cost we've seen here in North America, partially Europe, we've seen real tightness in being able to get trucks and rail freight, increases just in general across the board, in even specific types of trucks. So we do use flatbed trucks here in North America, and those have been particularly tight in 2018. In China, freight cost were a piece of it, a little bit different, kind of, influence there. And that was a little bit of tightening of regulations in terms of weights on roads. And so as we saw those regulations come through and lower loading levels of trucks, that required more trucks and that more expense, and that had to be purchased or pushed through on a per-ton basis. So that same truck, fewer tons to customer. And so it did increase our cost there, albeit a little bit smaller than what we saw in North America. But yes, we had to manage through that as well.

Steven Schwartz - *First Analysis Securities Corporation, Research Division - Analyst*

Okay. But it's -- for the most part, those costs are regional. So in other words, it's not -- you're not talking about higher freight costs because the growth in the Asian business and pursuing that business is causing you to have to ship things farther at higher rates. There is nothing like that in this conversation? Correct?

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

Correct. We're largely localized, meaning, we supply customers, produce -- source produce and supply customers largely within the same region. So we do ship bentonite around the world. We ship other products around the world. But we highlighted on a call or 2 ago that those numbers are relatively small, less than 5% of our sales. The majority is localized in region.

Steven Schwartz - *First Analysis Securities Corporation, Research Division - Analyst*

Okay. Got it. And my second question, just with respect to your gross growth in the Paper PCC business, talk about the additional 300,000 tons coming on. Just wondering, from a gross growth standpoint, how much is -- are programs like FulFill and NewYield adding to your growth as compared to the new facilities?

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

Got you. Let me kick it off, frame it, and then I'll let D.J. talk a little bit more specifically about some of these technologies and the filler contracts that we're building, our satellites we're building. Filler tons, obviously, hitting revenue, that's the volume. The revenue associated with those tons is different around the world. You'll see a lower per-ton revenue sometimes in Asia regions than you will in North America and Europe. And that's just because the input costs tend to be a little bit lower, so lime cost in particular. So on a revenue basis, we sometimes like to talk in tons because that ton generates the same EBITDA around the world. NewYield is a kind of a per-ton revenue. For FulFill, we've always mentioned before, it's priced a little bit differently. It's more technology and technology fees, so that it's not necessarily revenue, it kind of drops right to the bottom line. So FulFill doesn't move the needle on revenue, it does move the needle in operating income. But how about I let D.J. talk to you about -- little bit about what we're building, and some of what's happening with NewYield in Asia and other parts.

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

Yes. Thanks for the question, Steve. Couple of things. So regarding just details on the 300,000, we've got the startup in China, with the Chenming Paper company that'll be coming online in the second half, coming towards the -- in the second quarter. So first half, we'll be ramping up the facility in Indonesia. Those 2 makeup, in their standard PCC, they make up the 300,000 tons. FulFill will be offered in both those locations. But probably not part of the ramp up, we usually get things stabilized before the next level of technology goes in. One of the other things that we had mentioned or alluded to during the third quarter call was discussions with expansions with folks. And so we've also been able to get agreement on somewhere between 25,000 and 50,000 tons, that we'll be putting in India as expansions. And that's just part of us applying the latest technology and helping our customers growing their use of PCC. So those will be coming on in the second half as well.

With regard to the other technologies, like NewYield, and Doug had also mentioned Envirofil in the past, both of those right now just have -- are being deployed one location each. But I will tell you, as I look at the pipeline that's going on, and we've got about a dozen or so satellites in the pipeline. A couple of them are Envirofil, a couple of them are NewYield, and the majority are still standard PCC. Majority of that being in Asia, but we are seeing increased interest in these new technologies in South America, primarily Brazil, and getting some pull in Europe as well. So that's kind of how the pipeline is looking right now. That help?

Steven Schwartz - *First Analysis Securities Corporation, Research Division - Analyst*

Yes. No, that's very helpful. Just to keep all of these different growth elements in perspective with each other. So, no, appreciate that.

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

Yes, Steve, I will add to that a little bit. As D.J. mentioned, certainly, we see that opportunity to grow the base filler level. But we are seeing a lot more kind of interest in -- and it's what's feeding our new product development pipeline in more environmental, sustainable recycling solutions. D.J. mentioned Envirofil that is a recycling solution, NewYield is a recycling solution. We've got other -- in our Environmental Products business -- we talk a lot about environmental solutions, like FLUORO-SORB, that's helping with waste water cleanup. We've got some low emission - demand for low-emission greensand bond products. So as with the casting process, the emissions are reduced. We see some of that pull from customers. So I'll tell you, a lot of the 35 products and a lot of what's in the pipeline is geared toward helping those customers with these types of solutions. And certainly leveraging our position on that paper mill, we're they're every day, 24/7, and helping them expand where they have issues -- they're facing issues, water, recycling and reducing fiber consumption with higher PCC. So just to give you a flavor, that's not just in PCC, it's kind of across the company where we're innovating in this way.

Operator

And moving on, we'll go to Rosemarie Morbelli with G. Research.

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

I was wondering if you could talk about the revenues for the quarter. It was below my expectations, and I am just wondering how it's tuned against your own internal projections? Whether you were positively surprised in some areas and negatively in others?

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

Rosemarie, as we went through the quarter, we generated 5% growth, adjusting for foreign exchange, that is very much consistent with, I think, how we were trying to look at the opportunities that laid against us, and also, consistent with what we were thinking about in terms of profitable growth over the course of the quarter on a year-over-year basis. And also trend line where we were for most of the year in terms of overall growth. And I think it lays the groundwork, and Doug will want to probably provide a little more detail, again, around the actions and activities we were taking in 2018, capturing some of those this year. Laying the ground work for continued top line growth in 2019 as we look forward.

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

Yes, Rosemarie, I think I'll add to that. Yes, I don't think we were -- I think you're saying, we're surprised by it. And is this something -- is this a trend that's going to continue? What we're looking at right now, I think at the end of the year, sometimes it's a -- as Matt mentioned, 5%, and that's a little bit below our kind of full year average of 8%. But at the end of the year, sometimes what happens especially in those markets, you do see some orders shift around. And not exactly sure when that's going to happen, I think it happened a little bit in PCC in China. We had 1 individual customer kind of slowdown in the last 2 weeks of the year. But I will tell you that they're pulling strong as they get into the beginning of the year. That tells me, there's a little bit of destocking going on. I think in the construction, sometimes in automotive builds, we did see a slowdown in Metalcasting in China, I think that contributed to some of it. But again, I think, if you want to go into the full year -- and we're seeing a little bit of that persist here in January. But when we think going into the full year with what we have in terms of big projects that we've put in place, started last year, that'll be coming online, the pricing actions, the new volume, the new products, and certainly with the PCC that'll be coming on in the later half. We think that, that growth trend continues. That said, we are seeing some softening markets. Do I think that 8%, again, is possible? I'm not sure right now. We think we can continue with our kind of mid-single-digits growth throughout the year. Might be a little bit lower than last year given where we are in China and with some of the softness we're seeing in Europe. But right now, we're pretty confident we can continue our growth trend.

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

That is very helpful. And then looking at the Metalcasting. Yes, auto has slowdown in China. But on the other hand, you are working on substitution and gaining share versus the 2 parts greensand, or whatever it is called. I was wondering if you could talk about the success in substitution and whether you could grow faster than the overall market in that particular category.

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

Yes, let me start, and I will let Jon Hastings take you through kind of the specifics. We mentioned that, yes, we think we see continued growth in China. We probably averaged 12% to 15% type of growth over the past 3 years. Given the base demand, it will probably be a little bit lower. China is still growing. It's just albeit slower in some of our casting products, and it's not all just automotive. But our penetration strategy has been a success, and will continue to be this year, offsetting some of that slower base volume growth. Jon, you want to -- how we do that? And how we put resources to it?

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

Sure. Rosemarie, I'll echo a lot of the comments that Doug just made. Overall, the casting industry, you can look at it in a couple of different ways. Automotive certainly has been impacted by changes in the tax policy and the lending practices. But the remainder, industrial and heavy equipment seems to be a little bit more robust. You asked about our blended product strategy, and that does continue to work. What we're seeing is consolidations in the foundry industry. We're also seeing new investments in highly automated casting lines that are producing castings that are equivalent to the quality that we see in North America. In order to do that, those customers require high-quality, high consistency products that we offer to our customers. As you know, we tailor our products specifically to the needs of each foundry. So we continue to innovate with them, and those products continue to be in fairly high demand. So as we get into 2019, although we don't expect the double-digit growth, we do continue to see the mid-single-digit growth as we continue to penetrate with the blending strategy.

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

And those blending products, I'll just add, Jon mentioned, but from the base clay to the, kind of, engineered solution, that's a different profit profile as well. And so although sales may be a little bit lower than last year, or lower than last year, I do see that will help our margin expansion. That's one of the elements that continues to drive margins higher.

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

And if I may ask one last question before getting back on queue. I was wondering if you could talk about the growth of the pet business excluding Sivomatic.

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

Sure. Jon, you want to take that as well?

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

Yes. So certainly you know the Sivomatic story, but in North America, we continue to grow as well. What we have found is that, now that we have a premium position in both Europe and North America, we've got a lot of customers that are asking to expand business for us. The reason for that is multiple fold. Some of is related to innovation. We continue to deploy new products like lightweight litters, but now we're expanding into other fragrance products as well. So while we continue to work pricing to offset cost, our customers are looking at us as a premier supplier in pet care and we continue to have growth in North America.

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

So I know that you are selling the pet care, both under private labels and under your own name, and I should know that. But what is the MTI name it is sold under?

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

Premium Choice. There is a wide variety, Premium Choice is one. But again, you can find those in many different ways. We can come back to you with a full list as to what we do.

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

Yes, the MTI brand is called Premium Choice. But because we're private label, you'll see kind of our bentonite in packaging throughout a number of stores, Walmart. You also see it through Tractor Supply and Petco, et cetera. So there are a number of outlets where you'll see private label brands. There's a good chance that we're probably the one supplying that bentonite and we're packaging it. But ours is Premium Choice. I hope you have a cat, hope you pick up that one.

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

Thank you. And, no, I no longer have a cat.

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

Rosemarie, also, we should mention that we continue to grow the pet care business in Asia. In Asia, so outside of Sivomatic, but Asia, especially in China, but also other countries, we continue to penetrate - small base right now - but the same value proposition continues to play over in Asia as well.

Operator

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

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

Thank you, Paula. Thank you all for joining us today. We look forward to speaking with you again very soon, and hope you have a good day. Thank you.

Operator

And once again, that does conclude today's conference. We'd like to thank everyone for their participation. You may now disconnect.
