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PRESENTATION

Operator

Good day, everyone, and welcome to the third-quarter 2024 Minerals Technologies earnings call. Today's call is being recorded.

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

Lydia Kopylova - *Minerals Technologies Inc - Investor Relations*

Thank you, Shelly. Good morning, everyone, and welcome to our third-quarter 2024 earnings conference call. Today's call will be led by Chairman and Chief Executive Officer, Doug Dietrich; and Chief Financial Officer, Erik Aldag. Following Doug and Erik's prepared remarks, we'll open it up to questions.

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

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

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

Douglas Dietrich - *Minerals Technologies Inc - Chairman of the Board, Chief Executive Officer*

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

Let's go over a quick outline for today's call. First, I'll provide a quick review of our performance highlights for the quarter, and then I want to spend a few minutes reviewing the progress we've made with a variety of key initiatives and business development activities, as well as run through some highlights and key takeaways from our Investor Innovation Day that we held in September. Erik will then take you through the detailed financials for the quarter. We'll try to keep our prepared remarks a bit shorter this call so we have more time for your questions.

Let's start with our Q3 highlights. This is a record third quarter for us, and we're on track for another record year. We did experience a general slowdown across our industrial markets this quarter, primarily in the engineered solutions segment. But this softness was offset by growth in our consumer-based businesses. This is the balanced structure of our portfolio that I often refer to, and it continues to prove that it can deliver solid results through a range of market conditions.

Despite the softer conditions in our industrial markets, operating income was a record for the third quarter, and both gross and operating margins remained strong, reflecting the increased profitability we are driving across the company. Price improvements, higher sales of our newest products, input cost savings, and productivity improvements all contributed to this performance.

Operating cash flow increased over last year, and our balance sheet is in great shape. We have broad opportunities to invest capital in ourselves, both to support our organic growth and to capture manufacturing cost improvements in our facilities.

With debt leverage at our target levels and with our free cash flow generation of around 7% of revenue, we have sufficient financial flexibility. We continue to follow our balanced approach to capital allocation, which is to return 50% of our free cash flow back to shareholders while retaining the other 50% on the balance sheet for inorganic growth opportunities.

We completed our previous $75 million share repurchase program last week and, last week, announced a new $200 million share repurchase initiative. We increased the dividend by 10% at the same time, demonstrating the confidence we have in our ongoing financial strength and long-term growth prospects. Overall, I'm proud of our team's performance this quarter and pleased with how well MTI is positioned to continue our strong performance track.

We made significant progress over the past several quarters with our growth strategies in both segments, and I'd like to highlight a few initiatives and accomplishments that will have a meaningful impact on expanding our leadership in key markets and positioning the company for the future. In Household and Personal care, we recently launched a new global B2B brand called SIVO. Over the past few years, we've built a leading cat litter business, emerging as the leading partner for both private-label and well-known brands. The SIVO identity was established to unify and embody the strength of this global business and its focus on solutions that improve the lives of pet owners and their cats.

No other cat litter manufacturer can offer the level of expertise and service that we can through our global mining, processing, packaging, innovation, and logistics. The SIVO business is positioned to offer our customers the very best assortment of products in every region, which we see as an extremely strong base for long-term growth.

Within the Specialty Additives product line, we expanded our offering of products targeting sustainable solutions. We've grown our position in paper and packaging markets this year through the deployment of our New Yield recycling technology, and we recently launched a new specialty additive technology for the bioplastic market called EMforce Bio. This additive helps to maintain the plastic's physical properties and functionality and, in certain applications, enables it to be fully compostable.

In the engineering solutions segment, we continue to deploy our MINSCAN LSC automation technology for refractories, with two additional installations expected in Q4. And we continue to increase the penetration of our foundry blends into the China and India markets with the conversion of several new customers to our blended solution.

We've made significant progress with the validation and deployment of FLUORO-SORB, our PFAS remediation solution. As you know, we're collaborating closely with the EPA to further demonstrate the effectiveness of FLUORO-SORB in drinking water treatment and have been included in pilots at eight water utilities. The results so far are very promising, and we anticipate that this can accelerate the adoption of FLUORO-SORB across the US. We have other examples of growth initiatives that we've pursued this year, but these are a few that demonstrate how we are aligning the company with secular growth trends, developing new sources of revenue, and positioning the company for future growth.

One last comment before I move on. We tend to focus our comments regarding innovation on new product development, but we've also made several innovative advancements within our operations and back-office processes.

At MTI, we constantly look for ways to remove inefficiencies, improve safety, and increase our process capability. Over the past few years, we've deployed several AI-based tools in our operations to aid areas like predictive maintenance and process optimization. We've also deployed intelligent tools to supplement our shared service business processes and our R&D capabilities. We're beginning to see the benefits from these initiatives, which give us greater insight into lowering manufacturing costs, aiding our R&D activities, and becoming even more efficient in both manufacturing and business processes.

One significant recent example is a partnership we just announced with a technology company to deploy autonomous mining capabilities. We've been working together to refine this technology for the past two years. We see where this can help us to increase employee safety, improve productivity, and drive higher utilization of our mining equipment.

I mentioned all of this to highlight that innovation at MTI is deeper than just new product development. It's one of the core tenets of our operational excellence culture and is driving improvements in efficiencies across the company.

Speaking of innovation, on September 24, we hosted investors at our Innovation Day event at our Hoffman Estates R&D Center, and for those of you who attended, thank you for taking the time to join the event. The day focused on three of our four core technologies and primarily around how we apply them in our bentonite-based businesses. We showcased how we apply these technologies in the development of some of our latest products in environmental water remediation, health and beauty, high-temperature foundry systems, and pet care.

But the day was not intended to just demonstrate our products. It was to highlight the depth of our technological capabilities, their versatility, and how they can be applied to create solutions for a wide variety of problems. An additional point we were trying to convey during the day was to show that these technological capabilities, important as they are, are only one piece of what makes MTI unique.

We demonstrated four key characteristics of MTI -- describing our world-class mineral reserves, these core technologies, our deep applications expertise, and our intimate knowledge of our customers' products and processes. The combination of these four and how they are supported by the MTI business system and our culture of operational excellence is what truly differentiates MTI. It's this architecture that supports our leadership in the marketplace and what positions us to be able to develop, manufacture, and deliver valuable products and solutions over the long term.

If you weren't able to attend this event, I would encourage you to access the presentation materials on our website. And we look forward to showcasing our other technologies and minerals at another Innovation Day in the future.

Now, I'll hand it over to Erik, who will walk us through the financial details, segment highlights, and our outlook for Q4. Erik?

Erik Aldag - *Minerals Technologies Inc - Senior Vice President - Finance and Treasury, Chief Financial Officer*

Thanks, Doug, and good morning, everyone. I'll begin by providing an overview of our third-quarter results, followed by some detail on the performance of our segments, and I'll wrap up with our outlook for the fourth quarter. Following my remarks, I'll turn the call over for questions.

Now, let's review our third-quarter results. We delivered another strong quarter. Our results represented third-quarter records for operating income and EPS, excluding special items. Third-quarter sales were $525 million, down 2% from last year on an underlying basis as growth in consumer and specialties was offset by lower sales in engineered solutions.

We experienced a slowing of industrial market activity in the third quarter, and you can see how that impacted our high-temperature technologies and environmental and infrastructure product lines in the sales bridge on this slide. In the operating income bridge, the volume and mix impact reflects this market softness, which you can see we more than offset with continued pricing improvements and cost performance.

Selling price increases totaled $3 million versus the prior year, which translated to 40 basis points of margin improvement, and cost improvements contributed $6 million in higher income and 120 basis points of margin improvement over last year. Our teams continue to manage costs well, delivering a strong mining and productivity performance, and we're realizing the benefits from the cost savings program we implemented last year.

Altogether, third-quarter operating income rose by 3% versus last year to $79 million, and operating margin increased by 100 basis points to 15.1% of sales.

Earnings per share was $1.51, excluding special items, up 1% from prior year. And finally, our cash flow remains strong with $60 million in cash from operations in the third quarter.

Now, let's review the segments, beginning with Consumer and Specialties. Third-quarter sales in the Consumer and Specialties segment increased 1% on an underlying basis from last year to $280 million. Sales in household (technical difficulty) year over year to $131 million.

We continue to realize solid sales growth in several of our high-margin consumer applications such as personal care, which was up 7%, edible oil and renewable fuel purification up 4%, and animal health up 13% over last year. Meanwhile, our fabric care sales were temporarily lower than last year due to the timing of customer orders, and we expect that to reverse in the fourth quarter.

Cat litter sales grew 5% sequentially and were up low-single digits versus last year. After a slower-than-usual summer period in the US and Europe, our cat litter sales picked up late in the third quarter and volumes have continued to trend upward in October. We're expecting a stronger fourth quarter for the entire household and personal care product line, and early indications are that next year is also setting up nicely for mid- to high-single-digit growth.

In Specialty Additives, sales were 1% higher on an underlying basis. Volumes in paper and packaging continued to grow, driven by our newest satellites in Asia and improved demand across Europe and North America compared to last year. Meanwhile, demand for our Specialty Additives serving automotive and construction markets has been more tempered.

Third-quarter operating income for the segment was $42 million, up 9% year on year on favorable underlying volume, as well as strong cost control. We captured input cost savings and productivity improvements as we continue to drive production efficiencies in our acquired cat litter facilities. Operating margin for the segment improved 170 basis points from prior year to 14.9% of sales.

Turning to our fourth-quarter outlook, in Household and Personal Care, our cat litter business is entering its seasonal strong period. And in Specialty Additives, we expect volume from paper and packaging satellite ramp-ups to help offset the seasonal slow period for residential construction. Overall, for the segment, we expect operating income to be similar sequentially and up over 10% versus last year.

Now, let's turn to the Engineered Solutions segment. Third-quarter sales in Engineered Solutions were $244 million, 5% lower than last year. This is the segment that is most impacted by industrial market conditions.

Sales in High-Temperature Technologies, our largest product line, were $175 million, 1% off from last year, driven by softer demand from foundries serving the agricultural and heavy equipment market and from some of our customers in the steel industry. Sales in the environmental and infrastructure product line were 12% lower year over year on continued softness in commercial construction and environmental lining applications.

Segment operating income of $39 million was 4% lower than prior year, driven by lower volumes. Operating margin remained strong, improving by 10 basis points to 15.9% of sales, as our teams remained focused on execution and delivered a solid cost performance.

Looking ahead to the fourth quarter, we expect industrial market conditions to remain soft for high-temperature technologies, and we are entering the seasonal period when project activity is slower for environmental and infrastructure. Operating income for the segment is expected to be approximately 10% lower sequentially, which is a typical seasonal change.

I will note that there's a little more industrial market uncertainty out there for the next few months. However, we expect these more interest rate-sensitive end markets will strengthen with greater visibility around interest rate reductions. Overall, we feel positive about how the economic backdrop is setting up for both of our segments next year.

Now, let me turn to the summary of our balance sheet and cash flow highlights. We delivered another strong cash flow performance in the third quarter. Cash from operations was $60 million in the quarter, bringing our year-to-date total to $166 million, a 20% increase over prior year.

Year-to-date free cash flow was $105 million, a 55% increase from prior year. We continue to expect full-year free cash flow in the $150 million range, which would put our full-year free cash flow conversion at approximately 7% of sales.

CapEx totaled $25 million in the third quarter, and we expect our full-year capital spend to be around $90 million. We also deployed $9 million toward debt repayment in the quarter, and we completed our previous one-year $75 million share repurchase program this month.

As Doug highlighted, our Board of Directors recently approved a 10% increase in our quarterly dividend and a new $200 million share repurchase program, which we expect to execute over the coming years as part of our balanced approach to capital allocation. Our balance sheet remains very strong with over $550 million of liquidity and net leverage at 1.7 times EBITDA.

Now, I'll summarize our outlook for the fourth quarter. We expect overall sales to be similar sequentially and similar to the prior year. In past years, we would normally expect lower sales in the fourth quarter due to the seasonality of some of our end markets. However, the combination of our growth initiatives and our more balanced portfolio of consumer and industrial products is helping to offset that seasonality.

We expect sales growth in Consumer and Specialties, with stronger cat litter sales and new paper and packaging satellites helping to offset seasonally lower residential construction activity. In Engineered Solutions, we see lower sales sequentially, as industrial end market conditions are expected to remain soft and we'll be entering the seasonal low period for environmental and infrastructure project activity.

We typically experience higher energy and mining costs in the fourth quarter, and our margin guidance reflects that typical seasonality. We're also expecting overall product mix to be less favorable sequentially given the lower sales in some high-margin product lines within Engineered Solutions. Overall, we expect to deliver another quarter of year-over-year margin improvement, with operating income between $70 million and $75 million, an earnings per share between $1.35 and $1.45, and we expect continued strong cash flow generation.

For the full year, we are on track for another record performance for operating income and EPS, and we expect our full-year operating margin to be close to 15%, ahead of the 14% target we set for this year. Overall, despite mixed end market conditions, MTI is well positioned heading into next year, with multiple levers to drive long-term growth and shareholder value.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Daniel Moore, CJS Securities.

Daniel Moore - *CJS Securities, Inc. - Analyst*

Thank you. Good morning, Doug. Good morning, Erik. Thanks for taking the questions.

I'll start with prepared remarks. If I heard right, I think you said you mentioned your end markets and new products set you up well for mid- to high-single-digit growth next year across Consumer and Specialties. Did I hear that right? Number one. Number two, can you break that down a little bit by category, and what are the key new products or innovations that give you that confidence?

Erik Aldag - *Minerals Technologies Inc - Senior Vice President - Finance and Treasury, Chief Financial Officer*

Yeah. So the comments in the remarks was in reference to Household and Personal Care and the fact that the growth was, I think, low-single digits in the third quarter. And October is looking pretty strong for pet care, and we feel good about the fourth quarter and heading into next year.

Generally, we've been seeing good growth out of that Consumer and Specialties segment and, in particular, the Household and Personal Care product line. It's not just the pet care, but it's the high-margin specialties that we're talking about, the bleaching earth, edible oil purification, renewable fuel purification, personal care, fabric care, animal health. There's a lot of product lines in there that we feel confident about, and so that's what the statement around mid- to high-single-digit growth for next year was about.

Douglas Dietrich - *Minerals Technologies Inc - Chairman of the Board, Chief Executive Officer*

Dan, that said, we'll take it a little further. So the high- to mid-single digits is Household and Personal Care product line, but I do think that Erik made another comment that sets up the backdrop for next year could be very positive for both. Now, interest rates and how they'll trend down, the impact and the delay that it will take to kind of move some of these more industrial markets, especially commercial construction, which we have some projects that we know that are on the sidelines that are ready to go, this could provide a very nice backdrop next year for both of the segments in terms of growth.

So we're setting up nicely in the Consumer and Specialties business, and I think we could be set up nicely next year if some trends take place where we can see that revert to a growth. And for both segments going that direction, that's where we're going to revert back to that mid- to high-single digits, or at least mid-single digits, for the company.

Daniel Moore - *CJS Securities, Inc. - Analyst*

Very helpful. Near term, how much of the slowdown you're seeing across the more cyclical pieces of the business, how much of it, if any, relates to customers being cautious in working down their inventories versus actually related to kind of softening end market demands over the next quarter or so?

Douglas Dietrich - *Minerals Technologies Inc - Chairman of the Board, Chief Executive Officer*

Well, let me start off, and then I'll give it to Brett, who's the Group President for Engineering Solutions. I think it's a bit of both. I think we're seeing -- we continue to see weakness or not a lot of movement at all in commercial construction. So I think that's just kind of the economic activity and interest rate driven, and the same with some of the environmental projects -- larger environmental projects.

I think in foundry and refractories, it's a bit of a difference. Brett, you want to give some color on the two product lines and what you're seeing?

Brett Argirakis - *Minerals Technologies Inc - Group President, Performance Materials and Refractories*

Sure. Dan, from a metal casting standpoint, mainly North America, it's really the ag market demand has really softened. The third quarter declined a little bit further than the second. We have a major equipment supplier pulling a lot of production out of the market. We also saw other ag foundries take extended outages.

But the core business is still okay. Reduction continues to be driven by the high interest rates, the high inventories of really used and new farming equipment. So there's just -- it's a slowdown in the market itself.

In the fourth quarter, though, it's expected to hold. We don't anticipate that ag market to go down much further. And that part of the segment makes up about 15% of the total metal castings market in North America. Automotive seems to be okay; it's holding. So we think we're going to see the similar performance in the fourth quarter.

From a steel side, we are seeing some softening in the market. Utilization rates in North America are about 72%. They have been in the mid-70s, a little bit higher last year, but it's still doing well. Most of that decline is in flat rolled steel. We are seeing the service centers reducing some inventories, and some of that's just based on softer demand and some is just for pricing and trying to get pricing back to higher levels.

Our expectation for the steel production overall is similar to what I just said in foundries. We think that's going to be pretty flat in the fourth quarter and probably flat in the first quarter as well. Europe is still flat. But overall, we think by the second quarter, once the election is over, interest rates come back down, we're going to start to see an increase in trajectory.

So we feel -- we don't feel like we're seeing any major drop like we have years past. So overall, we feel pretty good about the market and in moving it forward in the next few quarters.

Daniel Moore - *CJS Securities, Inc. - Analyst*

That's great color. Just trying to get the sense for when it turns, whether there might be a little bit of extra boost from inventory replenishment, so to speak, but really helpful.

Last one, and I'll jump out. You've been running ahead of your margin targets on pace with 15% op margin this year. How do we think about the upside to those goals? And if so, when might you think about updating or establishing kind of new longer-term targets? Thanks again for the color, and congrats on the execution.

Erik Aldag - *Minerals Technologies Inc - Senior Vice President - Finance and Treasury, Chief Financial Officer*

Thanks, Dan. Appreciate that.

Regarding margins, yeah, we think there's some upside to our 15%. I think when we have a -- let me preface it this way, I think it's going to come from a couple of places next year. It's going to come from volume growth and revenue growth which, as I mentioned in the first two segments, I think, are set up well to deliver that next year. As you know us, we keep our fixed costs relatively tight. We do have capacity in our plants to handle that revenue growth, and so I think that contribution margin is going to drop to the bottom line, and that's going to be a positive.

Second thing is we are seeing acceleration in some of our higher-margin products. We've seen that all this year. Those are new products, but also some of the High-Temperature Technologies. As they rebound from a slower second quarter or a slower second half, I think those are going to accrete to our margins going forward next year.

So price-cost, you know us. If we see cost pressures, we're going to adjust pricing to keep our margins, but I think we're largely through that. We will be diligent on pricing. But at the same time, I think next year, you're going to see that volume growth, revenue growth, and you're going to see the higher-margin products all accrete to bottom lines. Where that ends up next year, I think we need a little bit better look at getting through the election in the fourth quarter, what the volume outlook looks like next year, and we'll give you some targets probably at the end of the year.

Daniel Moore - *CJS Securities, Inc. - Analyst*

Sounds great. Thank you again. Jump back with any follow-ups.

Operator

Mike Harrison, Seaport Research Partners.

Mike Harrison - *Seaport Global Securities LLC - Analyst*

Hi. Good morning. I was hoping that we could maybe dig in a little bit on the HPC business. We've had a couple of softer quarters there. I think last quarter, we were talking about some changeovers that impacted the pet care business. This quarter, as you went through the different product lines within that business, it seemed like everything was kind of growing pretty nicely except fabric care. And I'm just kind of curious how we got to 1% or 2% type of growth number if everything else was growing and it was really just fabric care that was soft. Can you give us some more details on what you were seeing in that business?

Douglas Dietrich - *Minerals Technologies Inc - Chairman of the Board, Chief Executive Officer*

Sure. Let me kick it off, Mike, and then I'll pass it to D.J. to give you some more color.

Yeah, a couple of areas. I mean, this product line is still set up really well. It's growing. These are some of our newest products. Yeah, a bit of a softer couple of months in pet care in the slow season, slower than normal, but rebounding nicely. And I think the fabric care was a little bit of an order pattern change and shift largely to some of our Asian customers. So I don't think it's anything there, but these businesses have a lot going for them and going ahead.

Let me get D.J. You want to take them through the product lines and what you're seeing?

Daniel Monagle - *Minerals Technologies Inc - Group President, Specialty Minerals and Household and Personal Care*

Yeah, gladly. So Mike, let me address fabric care specifically, then we'll talk a little bit more about specialties and then just provide you some color on pet side as well.

On the fabric care, yeah, a little slow, but if you look at, as Doug said, mostly that was some order pattern issues primarily with Asia, so that'll be coming back to our expected pace this quarter and next. But long term, I guess, if you look at that product line in general, the lineup that we've got with some of the macro trends out there on natural solutions and environmentally friendly approaches, all those things that we're doing, we're seeing substantial customer pull in fabric care in particular.

This trend towards dry detergents is where our expertise lies, and we're getting increased requests for higher-performing additives that do everything from fragrance control to go into some new products that'll be further working through dry products, reducing water consumption and eliminating plastics in that line. But if you look at that broader perspective of that particular product line, bleaching earth, we still continue to get strong pull, especially from renewable fuels, and that is just a nice performing mineral in that space.

Animal health, the drivers, again, are improved nutrition for especially the food animals, the protein source that's out there, and we're lining up with natural solutions that kind of go along with the trend of moving away from the antibiotics and those sorts of -- and GMOs. So we're really comfortable that we're in the right space for all of those items.

When you look at pets, a little bit of a slow quarter caught me a little bit by surprise on the early part of the quarter. We're seeing strong orders right now from them. So we'll see both sequential growth and year growth as we go into this quarter. Erik already highlighted those items.

As we go into next year, we're seeing pretty substantial pull on some new products, new offerings that we have. That's everything from a fragrance to some new packaging, but we're also seeing some called private-label strategy expansion where people going upscale and downscale, depending on what their particular strategies are.

An upscale move would be something like a hygiene improvement, something with less dust, higher brightness, or something specific for these new robot litter boxes that are going out there. The downscale would just be something that's a more competitive price offering versus an existing private label. So we're lined up well, Mike.

Douglas Dietrich - *Minerals Technologies Inc - Chairman of the Board, Chief Executive Officer*

Yeah. Mike, the only thing I would add to that is just giving you some perspective. So yeah, a bit of a slower quarter in some of these product lines, but on a longer-term basis, I think 1.5 years ago, we laid out that this pet care business at the time of our kind of Investor Day and we laid out some targets for you, I think it was a $350 million business. That thing's probably going to be pushing $440 million, $450 million next year, and our target by 2027 was get to $500 million. And we are well on track, if not ahead of that.

So a little bit slower summer. But with the initiatives that we have in terms of aligning ourselves with some Asia e-commerce business, some of the new products that you saw in Hoffman Estates around robotic litter boxes with our new additives, all the things D.J. just lined up, I think we're really well positioned to not only meet that target, but maybe exceed it. So on track, and I'd say it's pretty similar for the rest of the products in that product line that D.J. just mentioned.

Mike Harrison - *Seaport Global Securities LLC - Analyst*

All right. Thanks very much. That's definitely helpful color.

And then on Environmental and Infrastructure, that business continues to be pretty soft, I think, even though we're kind of lapping some easier comps there, and you mentioned that the lower interest rates maybe should help. But can you talk a little bit about what you guys are hearing from your key customers, what they're saying about backlog? And I'm just kind of curious, is there some pent-up demand there that could start to materialize in the next year or two, particularly as interest rates are coming lower?

Douglas Dietrich - *Minerals Technologies Inc - Chairman of the Board, Chief Executive Officer*

Yeah, sure. Brett, you want to go through some of what we're hearing from our customers?

Brett Argirakis - *Minerals Technologies Inc - Group President, Performance Materials and Refractories*

Sure. Mike, let me just walk you through our key product lines and where we are and where we think it's going to go. When you look at our building materials, the construction market, as you know, continues to be depressed due really to the economic drag we've seen throughout the world. It hasn't really fully recovered from COVID, supply chain crisis, interest rates, credit tightening. So we've been frustrated with it.

But we're starting to see more stability globally, and we're starting to see some extra activity. We're getting specked into several projects. But the consensus opinion is, again, when rates drop further, the political situation stabilizes. We're going to start seeing more movement.

We're way more optimistic for next year in 2025 than we have been in the last couple years, and our products are used on the front end of projects. So as these holes start to be dug on these construction projects, our products are going to be there. So we are more optimistic.

From an environmental standpoint, which is primarily municipal waste and coal ash, let me talk a little bit about that. The landfills, the municipal waste, of course, continues to grow, and landfills in the US continue to be a large part of the EPA's waste hierarchy plan. In Europe, that's not the case; there's more incineration. Landfills will continue to use compact clay liners. And when they need airspace, they'll use our geosynthetic liners. So those products are a key base for our business.

Then in coal ash, this is a more cyclical business. Coal ash and the drilling, that has been very slow for us. And that's a key part of our business. And sometimes, that takes longer. There's a lot of planning stages in that. So we think that 2024 was a key planning stage, and we are getting a lot more inquiries for 2025 for those businesses. So we anticipate that getting better as well.

And then drilling, drilling actually has been the highlight of the Environmental and Infrastructure business this year. It has produced pretty decent sales, and that's without the traditional heavy construction drilling. So when that kicks back in, outside of what we've been selling mainly into the electrical grid, clean water, broadband, internet, and energy initiatives, when that traditional heavy construction drilling kicks back in, I think we're going to be set up for a decent year.

And then, of course, wastewater. Wastewater, we have projects ongoing in the industrial manufacturing, discharge of wastewater into municipal sewers, in-situ remediation, and then, of course, drinking water. So there's a lot of activity going on, but unfortunately, it's been really slow, and we think we're set up pretty well for some of these projects that are waiting to be initiated.

Douglas Dietrich - *Minerals Technologies Inc - Chairman of the Board, Chief Executive Officer*

Does that help, Mike?

Mike Harrison - *Seaport Global Securities LLC - Analyst*

All right. Thanks for -- super helpful. And maybe just a quick follow-up. I think of that project-based business as having a very high incremental margin or being a place where more activity can leverage really nicely to the bottom line. Is that still the right way to be thinking about that in both environmental and infrastructure business?

Douglas Dietrich - *Minerals Technologies Inc - Chairman of the Board, Chief Executive Officer*

Yeah, it is. I think it's -- if you look at the whole Engineered Solutions segment, it, as a segment, has the highest margins in the company. And so I think from back to the earlier question on margin improvement, as you see the industrial activity around foundry, around refractories, and these projects that have high contribution, especially in the construction market, as that starts to move back in, not only that growth, but that contribution will come in, and that's where we see some of that margin improvement and profit improvement coming next year.

Mike Harrison - *Seaport Global Securities LLC - Analyst*

All right. Very helpful. Thanks so much.

Operator

Kyle May, Sidoti.

Steve Ferazani - *Sidoti & Company - Analyst*

Hi. Good morning. This is Steve Ferazani on for Kyle. Appreciate all the detail this morning, Doug and Erik.

I wanted to ask about the upsized share buyback. Just curious if that's still a one-year term. And also, what -- related to the upsizing, was it the greater cash conversion, the improved balance sheet? Your look at the valuation, I know this is a Board decision, or the flip side being maybe M&A candidates out there are either still priced too high or maybe there just aren't a ton out there. So it's a glass-half-full or glass-empty type question.

Douglas Dietrich - *Minerals Technologies Inc - Chairman of the Board, Chief Executive Officer*

We're definitely glass-half-full here. But Steve, thanks for the question. Let me take it back to just kind of our capital allocation policy.

Generally, when we're at -- in the balance sheets, where it is now in our leverage is around 2 times or below, and as Erik mentioned, we're at 1.7 times, we like to steer capital back to shareholders. 50% of our free cash flow on average goes back to shareholders each year, and the other 50%, we like to keep on the balance sheet for opportunistic M&A. We did finish -- so on $150 million, $160 million of free cash flow, $80 million a year -- $75 million, $80 million a year, we did that this past year through a $75 million share repurchase, and dividends I think totaled about $96 million back to shareholders -- $95 million back to shareholders.

Going forward, we see the growth, we see improved margins, and we see improved cash flows. And I think that supports both that capital allocation strategy and additional inorganic opportunities if they arise. So we did that through, this time, a $200 million share repurchase initiative. There's really no timeframe on this one. It's not a one-year, but we plan on purchasing those shares, gives us a little more flexibility through that kind of 50-50 balanced allocation of capital. So we'll be doing that over the next year, two years, two to three years, probably finish that program up, but we'll see how that goes.

And we also saw that with that kind of increased cash flow the company's generating, with the forward sales projections and the positions we're in, and the confidence too, we doubled our dividend last year, but now add another 10% to that. So I think with our financial strength, it gives us a lot of options and flexibility to both keep the balance sheet in great shape, increase the dividend, repurchase shares, and at the same time, as you mentioned, we still have retained the opportunity for M&A. So it's not one or the other. It's not give shares, share repurchase or M&A; we think we can do both.

Steve Ferazani - *Sidoti & Company - Analyst*

Thanks, Doug. Can I ask about the AI applications to the mining processes? I'm assuming if you're making these investments, and I know you highlighted worker safety, but if you're going to make these investments, I'm assuming you see some margin-enhancing potential. I think you talked about productivity, and I know you're in the early stages, is that the goal that you think that longer term, and what would your confidence level be that those could contribute to margin enhancement?

Douglas Dietrich - *Minerals Technologies Inc - Chairman of the Board, Chief Executive Officer*

I think so. So over the past couple of years, we've been working on -- I highlighted this one just because I did want to -- we just came off of an Innovation Day on products and innovation around new concepts. And I wanted to highlight that it's deeper than that. And those were my comments that we are looking at tools, AI tools, but other tools, just that we use every day in our operations.

And here was one that we felt that was very interesting, the way how to announce. And the reason this one's important is because, yes, there are some direct savings and efficiencies in fuel. But more to that, it can help us use equipment when we typically wouldn't use it. So this is helping with safer operations because of ways of running that equipment in sometimes challenging circumstances with our employees.

But also, if inclement weather at night, these are not times we're going to be running that equipment. It's not safe to do so. But this gives us the opportunity for asset utilization improvement, which ultimately will be long-term cost saving. So it might not be a huge margin improvement. Our mining folks are fantastic at what they do. But being able to use this equipment on a 24/7 basis is a big thing.

Steve Ferazani - *Sidoti & Company - Analyst*

Excellent. Okay. Thanks for that, Doug.

Last one for me on FLUORO-SORB. You talked about some of the progress on those eight pilot programs. Can you talk about when we can actually move to an implementation phase? Is that going to be driven more by the success of those programs or the regulatory requirements timing-wise?

Douglas Dietrich - *Minerals Technologies Inc - Chairman of the Board, Chief Executive Officer*

Well, we're already in the implementation stage. I guess it's just a matter of trajectory and timing and adoption from the marketplace. We are in four drink utilities already -- I'm sorry I just got singled -- we're in six utilities already by ourselves, removing PFAS from water. So we're already implementing that.

I think the engagement with the EPA is really -- we're already validated as a very high-functioning PFAS removal agent. What this is doing is having the EPA kind of utilize the three technologies, primary technologies that are out there, ours being one of them, in eight studies.

Now, I think that will just add to the confidence level of FLUORO-SORB as a very effective PFAS removal media and will likely accelerate its adoption. It'll give utilities the confidence that this is a good solution for PFAS. And I think it'll accelerate it.

Now, regulation in the utilities, really not going in until 2029. It's not to say that water utilities are waiting. So it will ramp up and it will ramp up as we get closer to that. And we're also working in environmental remediation, groundwater, capping systems as well. So it's -- only one element of PFAS removal is drinking water. We have other environmental water cleanup projects as well.

So we're already in the implementation stage, Steve.

Steve Ferazani - *Sidoti & Company - Analyst*

Excellent. Great. Thanks so much, Doug.

Operator

David Silver, C.L. King.

David Silver - *C.L. King & Associates - Analyst*

Yeah. Hi. Good morning. Thank you. I think the first topic I'd like to go at is kind of the cost performance this quarter. So looking at slide 8, bottom right-hand corner, but Erik highlighted about the $6 million benefit at the operating income line year over year. And I'm just wondering, I mean, I do see prices up marginally as well. So price up a little, cost down.

But more on the cost side, would you say that that $6 million benefit net-net, I mean, is that a function of lower raw materials? Is that better mining efficiency? Is it lower fixed costs? I mean, what would you point to to kind of characterize the cost benefit that you experienced this year versus one year ago?

Erik Aldag - *Minerals Technologies Inc - Senior Vice President - Finance and Treasury, Chief Financial Officer*

Yeah. Thanks, Dave. This is Erik.

It's kind of all of the above that you mentioned. It's about -- if you want to break it down, it's about a third raw materials, a third energy, and a third productivity. In productivity, I'll throw in kind of fixed cost savings as well. But from a productivity perspective, we're performing really well this year. We typically -- we go into every year targeting 10% productivity improvements from a tons-per-hour work perspective and 3% variable conversion cost improvements. And those are aggressive targets.

But this year, we're above 5% from productivity savings across the company. I mentioned a lot of that is coming from our newly acquired pet care facilities. We're still driving efficiencies in those facilities as we continue to automate and just bring these new plants up to kind of the MTI standard from a productivity perspective and a variable conversion cost-per-ton standpoint. So there's savings there.

And then, on the fixed cost side, we're staying disciplined around fixed cost. I mentioned we did have that savings program that we implemented last Q3. And so we've got the full run rate of that in effect as well. So it's across the board. We're performing well from a cost standpoint.

David Silver - *C.L. King & Associates - Analyst*

Okay, great. Thank you for that.

I'd like to ask a question. I think it's going to build on the PFAS question that was asked previously. But maybe I'll throw in MINSCAN as well. But just sticking with PFAS for a minute, but you said you have eight pilot projects underway. And this is my opinion, but I think between now and let's say 2026 or so, when the water utilities have to kind of define their particular positioning relative to the EPA standards and then sketch out a plan for remediation, so in that interim period, I'm guessing there's going to be a steep ramp-up in pilot projects and beta testing and whatnot.

And I'm wondering whether that has a net economic cost impact for your company. In other words, is this the kind of thing where increased testing and roll out of your products to potential customers causes a meaningful, I don't know, upfront cost impact? So maybe I'll just stop there. But how should we think about -- we're always thinking about price and volume. But if you're rolling out new products on maybe a larger, more broad scale than historically with other new product initiatives that might be more targeted, how should we think about how the upfront expenses or the pilot testing period impacts your financials?

Douglas Dietrich - *Minerals Technologies Inc - Chairman of the Board, Chief Executive Officer*

Sure. Thanks, David. Let me just -- with a bit of perspective and I'll pass it to Brett again.

We talk about eight pilot trials with EPA, and we talk about we're in six water utilities. We're actually running 250 different pilots around the world in terms of PFAS. So these can be tests, small tests, and they move them into more full scale trials. So we're -- this isn't just small, small scale here; we're -- it's pretty broad in terms of how we're testing this in different situations.

Now, most of those, we're getting paid for. So they may be small in revenue and they do cost us to manufacture, but we're getting paid for those and making profit on them. Now, the potential of those 250 as they become full scale and as they move through their pilots with different technologies over the next three, four years, that's the kind of breadth that they -- if they go to scale, the type of volume that will be pulled into. And some of them will use PFAS and some might use others, and we might be used in conjunction with different technologies, but that's when the volumes will start to really drive and the contribution will start to kick in for this product.

So I don't know, Brett, do you want to give a little bit more color on that? I just want to give some perspective before I pass it on.

Brett Argirakis - *Minerals Technologies Inc - Group President, Performance Materials and Refractories*

Yeah. Hi, David. Doug's right. I mean, we have over 250 pilots, active pilots. And keep in mind, I think we may have mentioned it, or Barry mentioned it at our conference, there's minimal to no capital. Our equipment, we don't have to capitalize equipment.

The FLUORO-SORB can be used in existing municipality equipment. So the cost outlay is very minimal for us because our product was designed to work right through those products or through their existing equipment. So with the work we're doing with the EPA, that's going to -- that should accelerate it.

Will we see a hockey stick? Probably not in the next couple of years. It's going to take some time. But again, as Doug said, we have eight pilots that we just brought on. We have six full-scale drinking water systems that are utilizing our FLUORO-SORB. We have two additional full-scale projects that are coming on in the fourth quarter. So we're really excited about it, and internationally, we're seeing an uptick in active piloting for the FLUORO-SORB in other EU countries for drinking water.

But keep in mind, this product can be used, as we mentioned earlier, in drinking water. We have landfill leachates, wastewater, and remediation. So yeah, we got a -- we're excited about it. How soon it's going to hit is still a little bit iffy, but we're going to stick with our target of [$30 million] by 2027, and we hope to accelerate that.

David Silver - *C.L. King & Associates - Analyst*

Okay. Great. Thanks for walking through that.

I have a question that's more China-related, so I guess part metal casting, part PCC. But by all accounts, this has been a slow rebound or period of slower economic activity in China. And the government there recently has taken some incentive measures to try to get the economy kicking into a higher gear.

And I know you're part of -- the Chinese economy is limited. But from what you could see thus far, I mean, has the economic supporting measures by the government, has that had any noticeable impact on your relevant businesses there? And is any of that, if there is improvement there, is that factored into your, I don't know, view for 2025?

Douglas Dietrich - *Minerals Technologies Inc - Chairman of the Board, Chief Executive Officer*

So I think it's a bit -- to answer that last question, I think it's a bit early to see if whether the stimulus that was put in place in China is having a major impact. My thought is, yes, it will, but maybe a little bit too early to call that one in terms of our business and volumes.

I will say, though, that though China has been -- the economy there has been a bit slower over the past couple of years, we've continued on our growth track and foundry. Our volumes are up 8% this year on a relatively what I guess folks would call a weaker Chinese economy.

And I put that into my comments because I wanted to highlight that fact that says we're continuing to build. The thesis that we have for Asia and India -- China and India in foundry is that even through -- higher levels of demand will help it, but even at lower periods of demand like we are right now, or more moderate levels, we're still able to grow at this kind of 8% to 10% rate. We always have been.

And that is because the penetration of the market to our solution is only at about 25%. And we've been driving that over the past 10 years from 5% to now 25%, and there's a lot more to go in both. And India is further back in terms of penetration. So there's an enormous addressable market for us there. And despite -- it might be weaker economy in China over the past couple of years, it's enabling us -- we're able to continue to drive that penetration and drive volume growth for our company.

On the paper side of things, a little bit different than kind of economic stimulus will help some of that, but it's a different dynamic there. Again, it's penetration where both in India and China as a consolidation of paper and packaging production into newer machines, newer technologies come in, we are the provider of that newest and latest technology. Recycling, environmental technologies are becoming the forefront of how we sell there. And those are taking hold.

And so again, even with flat production of paper and packaging in China and India, we're able to continue to penetrate with our technologies into the market. And so that's what's really driving our economics, or at least our revenue streams. Should those economies continue to move higher in terms of GDP, it will only drive those further.

David Silver - *C.L. King & Associates - Analyst*

Okay, very good. Last question, and I have to confess, this is probably the first time I've ever asked a question about your most recent dividend hike. But in my opinion, I think the context for that is kind of a little different than for most other companies I follow. I mean, you've been public for over 30 years, and I think over that time, the number of dividend increases you've announced can fit on the fingers of one hand, probably with one or two left over.

So we're in an environment -- you did double the dividend a year ago, and now one year later, you're coming back with a sizable but historically more modest dividend hike. So when I think about two dividend hikes more than doubling the previous off of a base that you're more than doubling now, is this part of a longer-term strategy for distributing cash to shareholders? Or how should I think about a relatively rare event now becoming a little more common?

Douglas Dietrich - *Minerals Technologies Inc - Chairman of the Board, Chief Executive Officer*

Well, you're right. The number of times we've increased the dividend, I think, it's a total of four in the company's history. But David, I think it's -- let me take it to a different place. I think the company is different than it is -- it is now different than it was five, 10 years ago. I think we focused more on share repurchases earlier in the company's history, gave the company flexibility to pursue growth.

And I'm not saying, hey, this is a maturing company. I just think that we put ourselves in positions for much more stable revenue growth, stable profit growth, and stable cash flow growth. And so you notice we still are tending more towards share repurchase, and that flexibility and giving the company -- we think that there's inorganic opportunities out there. And we think that share repurchase provides our ability to move toward a high value acquisition versus share repurchase.

But it does also, where the company is today and cash flow forward profile, support more of a dividend. Now, you might say a 10% is modest. We'll continue to evaluate that cash flow growth as we go next year. It could end up being something that we'll do regularly, but I think it's just getting to a place where we feel we can easily support a dividend increase, a doubling last year and another increase this year, also a share repurchase program and inorganic opportunities. That's quite a bit of flexibility and financial power for a company.

So it's also the confidence that we have in the model that we have, this structure of balance structure of the company, being able to move through economic conditions and still generate 7% of cash flow to sales. And we think, well, okay, we'll increase the dividend and we'll have a share repurchase program and we still have capital left for inorganic opportunities. And I think that's just reflective of where the company sits today.

Does that help?

David Silver - *C.L. King & Associates - Analyst*

Yeah. No, I really appreciate the context there. Thank you. That's it from me. I appreciate all the color. Thank you.

Operator

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

Douglas Dietrich - *Minerals Technologies Inc - Chairman of the Board, Chief Executive Officer*

Thank you very much for attending this quarter's call. We look forward to chatting with you at year-end and giving you our full-year results in January. Take care.

Operator

This concludes today's call. Thank you for your participation. You may now disconnect.
