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PRESENTATION

Operator

Good day, everyone, and welcome to the Second Quarter 2019 Minerals Technologies Earnings Call. Today's call is being recorded. At this time, I would like to turn the call over to Cindi Buckwalter, Head of Investor Relations for Minerals Technologies. Please go ahead, Ms. Buckwalter.

Cindi Buckwalter - *Minerals Technologies Inc. - Head of IR*

Thank you, Anna. Good morning, everyone, and welcome to our second quarter 2019 earnings conference call. Today's call will be led by Chief Executive Officer, Doug Dietrich; and Chief Financial Officer, Matt Garth. Following Doug and Matt's prepared remarks, we will open it up for questions.

I would like to remind you that beginning on Page 14 of our 2018 10-K, we list the various risk factors and conditions that may affect our future results. And I'll also point out the safe harbor disclaimer on this slide. Statements related to future performance by members of our team are subject to these limitations, cautionary remarks and conditions.

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

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

Thanks, Cindi. Good morning, everyone, and welcome to our second quarter earnings call. I'll begin today by covering the highlights from our second quarter, and I'll discuss what we're currently seeing in our end markets. And then I want to take some time to walk you through the traction we're making across our growth strategies and the broad range of opportunities we have for continued investments. Matt will review our financials in more detail, and I'll wrap it up with some concluding remarks before the Q&A session.

The second quarter was a challenging one for MTI given the changing conditions we faced in a few of our end markets and geographies. It was also a quarter where we delivered robust growth in several product lines, generated strong cash flow and took decisive measures to adjust to the market environment and to improve margins.

From a financial perspective, total sales for the quarter were $464 million, up 3% on a constant currency basis. We generated $61 million of operating income with double-digit margins across all segments and earnings per share of $1.11, which was at the top end of the adjusted range we gave in June.

Throughout the quarter, we tightly managed our expenses, drove productivity improvements and implemented appropriate pricing actions as we continue to pass through the inflationary pressures we've faced over the past 18 months.

Cash from operations and free cash flow have been strong for the first half of the year, up 23% and 65%, respectively. We also continued with our debt repayments and share repurchases during the quarter.

Let me touch on some of the highlights for the quarter. In Performance Materials, our Pet Care, Environmental Products and Building Materials product lines all delivered healthy sales growth. In particular, Pet Care sales were up driven by robust private label pet care demand in North America and by Sivomatic's strong performance in Europe. Environmental Products had strong sales growth from a large international project using our latest innovative Resistex lining system, and Building Materials recovered after a slow first quarter as we picked up projects that shifted into this quarter.

Sales in our Energy Services segment rose 31%, bolstered by larger deepwater well testing and filtration projects in the Gulf of Mexico.

Additional highlights in the quarter include the signing of a 45,000-ton satellite contract in India and the first commercial deployment of ENVIROFIL PCC, an innovative recycling technology. In addition, our new satellite in Indonesia is fully ramped up.

We faced several market and operating challenges throughout the quarter. Specifically, weaker demand from our foundry customers in the U.S. and China led to lower volumes in our Metalcasting business. Bentonite sold into drilling fluid products was also sharply lower due to weaker onshore drilling activity. And our refractories business was impacted by the softer demand environment in Europe.

We also contended with flooding-related rail infrastructure issues in the United States that limited volume and increased costs to supply bentonite products to our customers. A major railroad, on which we ship the majority of our bentonite volume, was shut down for 30 days. Our team acted quickly to implement our contingency plans by activating alternative modes of transportation and leveraging our strategic distribution locations. Throughout the rail outage, we ensured that our customers were supplied without interruption.

Prudent cost management and tight expense controls are part of our DNA, and given the cost pressures we've faced as well as the recent changes in some of our end markets, we implemented a restructuring program to improve our margins and adjust to these dynamics.

Now let me take you through what we're currently seeing in our end markets, what changed during the second quarter and the dynamics we expect going forward.

Starting with Performance Materials. We continue to see positive market trends and strong demand for our Pet Care and Environmental Products through the remainder of the year. In Pet Care, demand for our private label packaged products should remain robust in both the U.S. and Europe. And our strategy to transition Environmental Products to a higher-value portfolio of technologies is gaining traction, supported by a strong pipeline of opportunities.

The U.S. foundry market started the year relatively stable, but orders from foundry customers declined rapidly in May and June, which had the largest impact on our sales and profits for the quarter. We've also seen weak demand from our foundry customers in China, many of whom serve the automotive industry, which is down 14% so far this year.

The current outlook from our customers indicates that demand will likely weaken further during the third quarter and continue at lower levels for the remainder of the year in both the U.S. and China. It's worth noting that while our overall Metalcasting volumes were down in China in the quarter, volumes of our higher-value pre-blended green sand bond products grew. In our Basic Minerals product line, we anticipate continued lower drilling products volume.

Turning to our Specialty Minerals business. North America and European paper market operating rates remain relatively stable. However, we're seeing slower demand in China where paper mill production volumes have not picked up significantly from the low levels in the first quarter. Southeast Asia, India and Latin America remain stable.

Our Specialty PCC business has capitalized on strong customer demand for our newest high-performance products, and we're supporting this growth with 2 facility capacity expansions that are progressing well.

Operating rates in the U.S. steel market, the largest sales region for our Refractories business, remain at around 80%. However, softer conditions in the European steel markets are likely to continue.

In our Energy Services business, we've capitalized on increased global demand for our offshore deepwater services, including recent large well testing and filtration projects. And we maintain a strong pipeline of additional large projects.

In a few minutes, Matt is going to provide more details on our second quarter and will also outline our guidance for the third, which is going to reflect another quarter of challenging conditions in some of our markets. I want to emphasize that while we manage through this period, we remain focused on executing on initiatives that support our long-term growth strategy, and we continue to see multiple high-return opportunities in which to invest.

Let me take you through some of these areas in more detail, starting with how we're investing in the profitable long-term growth of our existing businesses.

Our Household and Personal Care business serves several consumer-oriented markets. These are attractive markets with stable long-term growth potential, and we have the unique capability and resources to serve them.

We've been investing in our Pet Care business, which has driven growth through our private label offering as well as through our new product formulations. We've also invested in edible oil purification, animal health and in fabric care. And as an example, last year, we built and started up a new plant in Turkey for edible oil purification that utilizes a new mineral reserve and manufacturing process. That facility has ramped up production, and we see opportunities to expand our presence in this consumer-oriented market.

Our strategy in Environmental Products has been to shift from our base geosynthetic clay liners to a higher-value technology portfolio that has the capabilities to support more complex landfill remediation and water treatment issues.

Over the past few years, we've invested in the development, manufacturing and marketing of several new specialized products, including variations of Resistex and FLUORO-SORB, which are uniquely tailored to address these large market opportunities. We're starting to see this strategy take hold, which has been the main driver of our 18% sales growth in this product line in the first half of the year.

We continue to invest in our global Paper PCC and Metalcasting businesses because they both have attractive opportunities to generate healthy cash flow returns. Our Metalcasting business represents a significant growth and investment opportunity. The foundry market fundamentals in large markets such as China and India remain attractive for the continued penetration of our blended green sand bond formulations. We leverage our technical expertise and strategic mineral resource positions to help customers improve casting quality and reduce costs through tailored solutions. Over the past several years, we've been investing in mining and manufacturing assets to support this growth.

We also see compelling opportunities to invest in our Paper PCC business at attractive returns. Over the last 3 years, we've signed 5 new satellite contracts and completed 3 expansions of existing satellites around the world, totaling over 500,000 tons of PCC capacity. Given the long-term nature of supply contracts associated with each of these investments, they provide a consistent source of solid cash flow for the company.

We maintain an active pipeline of more than 20 opportunities for new PCC satellites and our new high-performing technologies. Furthermore, we are expanding our applications of PCC into packaging where we have a unique value proposition for this growing market as well as into environmental and recycling solutions to support evolving customer needs.

Our innovation pipeline is another area where we are investing to drive organic growth. We commercialized 125 products over the last 5 years, improved the speed to commercialization by around 20% and increased the revenue derived from new products by 20% each year over the last 2 years. We've also instilled more metrics to track our alignment and product value proposition such as integrating voice of our customer tools to ensure that our products are uniquely tailored to what our customers need. Technologies such as ENVIROFIL, FLUORO-SORB, NewYield, Resistex and Additrol Low Emission all reflect our focus toward investing in the development of products that address broader environmental and recycling issues.

The third pillar where we feel confident in driving returns is through acquisitions. We demonstrated this last year with our acquisition of Sivomatic, which was quickly integrated into the company and is performing above our modeled expectations. We dedicate a significant amount of time to analyzing potential acquisitions and maintain a healthy portfolio of mineral-based mine-to-market strategic opportunities.

In sum, I hope this gives you a feel for the breadth of attractive growth opportunities we have at MTI. We have the balance sheet strength and flexibility to support all of these initiatives and drive attractive, sustainable long-term returns for our shareholders.

One last point before turning it over to Matt, I'd like to highlight that we published our 11th Corporate Responsibility and Sustainability Report. This year's report marks an important new chapter in our sustainability journey as we've established 2025 environmental goals and target reductions in 6 areas. These new commitments will elevate our sustainability performance and are fully aligned with our overall corporate strategy and financial goals. In addition, this report will provide more transparency and help our stakeholders better understand our continued progress. I encourage you to read this report, which is now available on our website.

I'll now hand it over to Matt to review our financials. Matt?

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

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

As Doug mentioned, the second quarter was a volatile one for MTI. We entered the quarter with relative strength across most markets. However, in May and June, conditions deteriorated quickly. Metalcasting had the largest impact, and we saw overall weakness in several of our markets outside the United States. These market conditions had the largest impact on our second quarter outlook and results. We managed through the flooding-related rail infrastructure issues in the Western United States and mitigated the financial impact to approximately $1 million.

Now turning to our reported results. Sales were $463.8 million in the second quarter, flat versus the prior year. As you can see in the sales bridge, we had $14.4 million of unfavorable foreign exchange and $4.1 million of weaker volumes and mix. These impacts were offset by higher pricing and an additional month of Sivomatic sales.

Operating income for the quarter was $61.2 million. The operating income bridge shows that the lower volumes and an unfavorable product mix had the largest impact versus the prior year. Our pricing actions more than offset the raw materials, ore costs, and freight and energy increases in the quarter. Note that so far in 2019, we have seen inflation in energy and magnesium oxide slow, while ore mining, other raw materials and logistics costs continue to rise.

For some perspective, over the last 18 months, we have incurred roughly $68 million of cost increases and have increased pricing by $55 million.

In the quarter, we continued to tightly manage expenses, with SG&A as a percent of sales down slightly from the prior year. Earnings per share were $1.11, which was lower than the prior year primarily due to 2 factors: first, the unfavorable volume and mix impact on operating income; and second, lower below-the-line foreign exchange gains of $0.11 compared to last year.

Our effective tax rate was 17.3% as a result of favorable discrete tax items in the quarter. Note that for the full year, we are expecting our ETR to be around 19%.

We are working to improve margins through continued pricing actions with our customers as well as supply chain activity to mitigate further cost increases. In addition, we announced a restructuring and cost savings program to improve our margins and better align our cost and organizational structure in the changing market environment.

Let's take a look at the specials in the quarter. Reported EPS was $0.75 in the quarter, which included pretax special items of $15.7 million. As part of the restructuring program, we recognized $5.7 million of severance-related costs and $7.5 million of noncash asset impairments to better align our manufacturing footprint, for a total charge of $13.2 million. We expect to realize $12 million of annualized savings from this program, achieving the full run rate in the first half of 2020.

In the quarter, we also wrote off $2.5 million of receivables related to the bankruptcy of a Refractories customer in the United Kingdom. Excluding these special items, EPS was $1.11.

I want to review the segments in more detail, starting with Performance Materials. Performance Materials sales were flat with the prior year and increased 4% on a constant currency basis. Household and Personal Care sales increased 18% driven by North American and European Pet Care, including 9% organic growth from Sivomatic, which continues to perform well.

Environmental Product sales grew 15% driven by a large bauxite and red mud remediation project in Saudi Arabia, and Building Materials sales increased 6% as we picked up projects that shifted from the first quarter. Growth in these product lines was offset by lower volumes in Metalcasting and Basic Minerals. The most significant impact was in Metalcasting sales due to weaker foundry customer demand and lower specialty sand sales.

Demand from U.S. and China foundry customers serving the automotive, heavy truck and agricultural equipment markets declined in May and June from the relatively stronger levels we experienced in April. Foundry customer demand continues at these lower levels, and there is uncertainty in the demand outlook for our foundry customer volumes.

Basic Minerals volume was lower on weaker demand for drilling products driven by the reduction in oil and gas activity in the Permian Basin of the United States.

Segment operating income was $27.7 million, down $2.4 million from the prior year driven primarily by lower volumes in Metalcasting and an unfavorable product mix. Pricing actions of $4.4 million mostly offset $5.1 million of higher costs from raw materials, ore, freight and energy.

Now looking to the third quarter. We continue to see strength in Household and Personal Care as well as lower volumes in our Metalcasting and Basic Minerals product lines. In addition, though we see several large project opportunities in Environmental Products and Building Materials, the timing of these projects is uncertain and we may see a shift in sales from the third quarter. Overall for the segment, we expect operating income to be lower by $1 million to $2 million sequentially.

Moving on to Specialty Minerals. Sales for this segment were 4% lower or 1% on a constant currency basis. Sales of Paper PCC were lower primarily due to the previously announced paper machine shutdowns in North America. We expected to see the Port Hudson paper volumes absorbed by other paper mills in the United States. However, we have not seen the displaced volume shift into other mills as demand has been met with imports and existing inventory.

Sales of Paper PCC in Asia grew 3% in the quarter as our new satellites and expansions are offsetting slower pull from our customers in China. Sales also grew 7% in the Latin America due to higher production rates versus the prior year.

Specialty PCC sales were up 2%, excluding the impact of foreign exchange, led by higher volumes at our U.K. facility as that expansion ramps up. Processed Minerals sales decreased 4% driven by lower volumes to our automotive and construction customers in the United States.

Operating income was $22.5 million, $2.6 million lower than last year due to the impacts of paper machine shutdowns in North America, foreign exchange and lower Processed Minerals volumes.

And looking to the third quarter, our Paper PCC customers in Europe will take their normally scheduled annual maintenance outages. We expect continued growth from our expansions, but we are cautious on the outlook for the automotive and construction markets that we serve. Overall, we expect segment operating income to be lower by $1 million sequentially.

And now let's go to the Refractories segment. Refractories segment sales were 3% lower than the prior year and flat on a constant currency basis. Steel utilization rates remain strong in the U.S. However, we are seeing softer steel market conditions in Europe versus last year. Operating income was $10.4 million, up slightly from last year, and this business continues to deliver strong margins.

Looking to the third quarter, we expect similar market conditions with continued stable performance in the U.S., offset by softness in Europe. We expect another strong year of laser equipment sales. However, the sales will be weighted to the fourth quarter. And overall for the segment, we expect operating income to be similar to the second quarter.

Now let's turn to Energy Services. Energy Services had a strong quarter, with sales up 31% and operating income more than double the prior year. Sales growth was driven by large well testing and filtration projects in the Gulf of Mexico as well as improved demand for these services internationally.

Looking to the third quarter, we expect operating income to be lower by $1 million sequentially, mostly due to the completion of large projects at the end of the second quarter. Though we see third quarter operating income down sequentially, we have a strong pipeline of projects that will begin to ramp up in the fourth quarter.

Now moving to our cash flow and liquidity in the quarter. Cash from operations was strong in the quarter at $68 million. Year-to-date, we have generated $98 million of cash from operations, 23% higher than last year. We expect strong cash flow generation for the remainder of 2019 as we continue to drive working capital efficiencies.

Our net leverage ratio stands at 2.2x EBITDA. We repaid $20 million of debt in the quarter, and following the acquisition of Sivomatic, we have reduced total debt by more than $100 million. We also repurchased $10 million of shares during the quarter, bringing total repurchases to $32 million since the beginning of 2018. Our total liquidity is strong with cash and equivalents of $220 million at the end of the second quarter and $200 million available on our revolver. We will continue our balanced approach to capital deployment and continue repaying debt to move toward our target net leverage ratio of 2x EBITDA.

Now let me summarize what we are seeing for the third quarter. Given the market environment we are currently experiencing, we expect sales to be approximately 3% lower sequentially and project third quarter earnings per share to be around $1. From where we are today, we're seeing weaker foundry market conditions through the third quarter and continued lower demand in China and Europe.

We are forecasting several projects to commence in the third quarter for Environmental Products, Building Materials and Energy Services. However, at this point, there is some uncertainty as to whether these projects will be fully completed in the third quarter.

We see continued strength in Household and Personal Care and stable conditions for PCC. The benefits of our restructuring program will begin late in the third quarter, and we also expect continued strong cash flow.

Now I'll turn it back over to Doug for some closing remarks.

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

Thanks, Matt. I'd like to take a moment to summarize our call today. The guidance Matt just gave you for the third quarter reflects the weakening market conditions we're seeing in some of our end markets. And we've taken the necessary actions to correct to these conditions. At this point, we do not see further weakening into the fourth quarter, but if we do, we'll make additional adjustments.

The underlying fundamentals of our business model remain strong, and our market positions and value propositions are intact. While we manage through this period, we remain focused on executing on our opportunities I laid out for you that support our long-term growth strategies.

With that, let's open it up to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And we'll take our first question from Daniel Moore with CJS Securities.

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

I wanted to start with Metalcasting. I guess maybe just talk about the cadence a little bit. Q2, obviously, things slowed down. Specifically, first, in the U.S., can you break it down a little further between auto, ag, heavy truck, where you're seeing the greatest amount of softness? And obviously, in your prepared remarks, still seeing it in Q3, but just wondering at the margin, any difference in second derivative or momentum in -- either of those end markets.

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

Yes. So let me frame it for you this way, Dan. And I'm going to pass it over to Jon Hastings, to give you a little more color on kind of our conversations that we've been having, continue to have obviously with our customers around the world.

In the United States, we tried to show you how things changed through the second quarter. And we had a relatively strong April -- March and April, in our Metalcasting business here in the United States with relatively strong foundry customer demand. That changed quickly in May and June. And I think what we're reflecting right now is kind of a full quarter of where we sit right now in these June rates. And so we're kind of losing in April, and you're going to see 3 quarters at this lower rate. Right now, we don't see that -- your second derivative comment, we don't see that continuing to accelerate south through the fourth. We think we're down 8% in the second half of the year, and we think that kind of the third and the fourth are similar at this point.

China, the same thing, we started off weak in the first quarter, picked up a little bit but then it's remained weak. We thought in the first quarter call that we'd start to see some stimulus in China. It would help auto production rates, et cetera. That did not happen. And so our current conversations are that -- with our customers, they see that this current rate in China is going to continue to extend throughout the year. So I don't think you see it worsening, but I do think that our third quarter guidance Matt gave you is a reflection of a bit weaker than the second quarter.

Jon, I want you to fill kind of conversations we always have with our customers and how far out you can see right now.

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

Sure. I appreciate the question, Dan. A couple of things to comment. First, North America. Like Doug said, we did have a fairly strong, robust Q1. And then very quickly in Q2, we saw some changes. And that was predicated on the conversations that we were having with our customers. It did span across automotive, ag, industrial and municipal. Heavy truck actually has stayed fairly decent for us, fairly steady. So a little bit of a differentiation there. But like I said, it changed pretty quickly here in Q2. Originally, in Q1, all the foundries were telling us favorable outlook, looking like growth for the year, et cetera, et cetera. And then in Q2, it ramped down pretty quickly.

Of course, our business model is supplying the needs for those customers on a pretty much real-time basis. It's almost just in time. We blend. We put it in a truck. We send it over to customers. And so any demand fluctuations at the foundries will impact us pretty quickly. And so our visibility in our order book is usually a week to 2 weeks out. Conversations with our customers, we do try to predict the trends for a couple of months.

Like Doug said, right now we've got some customers in North America that are saying things are pretty stable and demand is going to continue as it did in Q2. There are others that have some uncertainty and they say there might be some continued sluggishness through Q3. So all in together, if you look at North America, we're predicting pretty steady rates compared to where we ended the quarter.

If you want me to comment regarding China as well, China is a little bit different story in that Q1, we were fairly sluggish mainly because of the Chinese New Year, so we had a weak early quarter. But then by the end of Q1 and early into Q2, we saw some rebound, and that was probably some pent-up demand.

Again, fairly early in the quarter, we started seeing the demand trends change. And as we were talking with our customers, they've got a little bit longer-term view than North America, and we did see some sluggishness coming to Q2 and we expect to continue into Q3.

It is worth noting, though, in China, we've got our value proposition with our high-value blended products. Demand for those products has continued to be very strong. So we're favorably inclined at least with our strategy towards those blended products.

Now all this precipitated into our response. We've made adjustments pretty quickly. We're continuing to drive innovation, we tailor our products to our customers. But we're also driving continuous improvement throughout all of what we do. We're focused on our mining costs, our processing costs and our blending costs and making sure that those are in line with where we see the demands in the market go. Does that help you?

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

Yes, it does. In China, would the -- with the slowdown impact, the rate at which you are able to increase penetration, flat -- I mean good, bad or neutral?

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

No. I think it's -- I think as Jon just mentioned and as I mentioned in my comments, I think it's kind of a testament to that value proposition. It says, even -- and I think we mentioned this in the first quarter. Even in the down market, we still think we can drive this penetration. And that's because the demand of higher-value products in China is changing. The quality of castings is improving in terms of the cost to the end customers they serve, and also our blended foundry products save cost. And so I think both of those elements of our value proposition play out, and you can see that they're still playing out through rather challenging Chinese market for metalcasting right now. So yes, I think we can continue to drive in that. Those fundamentals, I said these are attractive fundamentals, not just in China but also in India for the continued penetration and investment in that growth for many years.

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

Keep in mind, Dan -- also let me just add to that. Keep in mind that there has been a lot of investment in China and India in some of the more modern new casting lines. So as that capacity came on, they're installing technology that is very equivalent to what you see in North America and Europe. That new technology actually requires the high-end blended products in order to produce the finishes that are in demand across all the different industries that they serve.

The reason I mentioned that is those foundries are also the more efficient foundries. And so in a downturn, a lot of the demand will transition to the more efficient foundries, which happen to be the new foundries which use our blended products.

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

Very good. And if I can sneak one more. Just switching over to PCC. Can you break out maybe the revenue declines in North America versus Europe -- or volume declines rather? And given the timing of capacity closures here in North America prior to satellites ramping up, I assume modest declines for the back half of the year is still likely. If you said that in your prepared remarks and I missed that, I apologize.

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

No. Let me address it from a volume perspective, Dan. I think when you take a look at the regions that we're serving in North America, as we talked about, volumes were down 10-plus percent, largely driven by what we saw from the Port Hudson takeout. But converse to that, we did see Asia up about 5%, and Asia ex China, was up 16% as our volumes were coming online from our Indonesian facilities, and we're continuing to make progress there. China, as we've talked to in the first quarter, had a relatively slow start to the year. I mentioned that there is a general slow pull from our customers as they are managing through that marketplace, down about 5% on a year-to-year basis from a volume perspective.

But again, Latin America, another region of good performance with sales up and volumes up. Volumes were up about 5%. So overall, a fairly good picture there from where we're growing, where we are located geographically and where we're seeing the sales.

D.J., I don't know if you want to add a little more color maybe as what we're seeing from an overall perspective.

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

Well, yes, Dan, just to comment regarding the new tons that will be coming online, we've got quite a bit coming online. Some of it is in the second half, most of it in early next year. But the good growth that Matt mentioned in India, we've got some expansions that will be coming online late in the third quarter. We've got -- we announced the new satellite in India that will be coming on towards the end of the first half in 2020. Indonesia ramp-up went very well. So that's contributing now. And then we've got the major 165,000 tons coming on in China in that second half as well. That is slower than what we had originally thought based on just some extended permitting issues that we've been dealing with, but that looks healthy. And also we're seeing, in anticipation of that conversion, increased interest from other papermakers in PCC. They know they're going to have a tough time competing on a quality basis if they don't convert their pigments. So these volumes are coming on, albeit a little slower than what we had [originally] (corrected by company after the call) projected.

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

Great. And lastly, the -- North America, roughly what percentage of total PCC volume is North America now kind of post this latest leg down?

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

Right now it's about 1/3. We're pretty -- if you took North America and then you -- North America, Europe and Latin America together is about 1/3, and Asia is growing. It's actually become our second largest region. And after this expansion, the expansion of the new satellite that D. J. just mentioned, Asia, in total, will be our largest PCC region.

Operator

We'll now take a question from Silke Kueck with JPMorgan.

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

Of the restructuring charges of $5.7 million that was -- that relates to severance, is that paid out already? Or do you expect to pay that out throughout the year?

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

Yes. Silke, as we talked about the restructuring program, we are going to get most of the benefits spread out over the next couple of quarters. That's commensurate with the severance that will be paid out and when those individuals who are leaving the company. So you're seeing a good piece of that taken out here in terms of actual actions in the third and fourth quarter. That cash will take place in Q4, Q1 and as we make our way into the rest of the program.

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

Okay. And can you discuss the $7.5 million impairment charge? And there's like $4 million of it that relates to Performance Materials -- Performance Products business. But like, which businesses does it relate specifically? And do you expect your D&A going forward to go down?

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

Yes. Let me also qualify on the severance piece there. The cashout is what I was talking about in terms of payments for the individuals who are exiting. However, the savings, as I talked about in my prepared notes, we're going to start to see pick up here at the end of the third quarter.

From the asset impairment side within Performance Materials, I think we mentioned to you over the past couple of quarters the actions we've been taking to strengthen the Environmental Products and Building Materials manufacturing footprint. The impairments in Performance Materials are largely related to the consolidation of some of the facilities that we've made in those 2 businesses.

Now from a D&A perspective, as you look at where we've been running, I think in the last couple of years, you've seen us in that $23 million to $25 million range, and this quarter was about $24 million. That reflects some of the asset impairment that we've taken here in the second quarter as far as the charge. But going forward, you're getting that push-pull from the projects and growth projects that Doug and D.J. just highlighted ramping up. So it should keep us -- as the asset impairment D&A comes down, should keep us in that $24 million range, I think, is pretty good to use going forward.

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

Okay. That's helpful. Secondly, how much Environmental and Building -- do you expect to move from the third quarter into the fourth quarter? And similarly, what amount of equipment sales in Refractories might be moving from the third quarter to the fourth quarter?

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

So let me just make sure we're clear on -- we have -- in the Environmental Products piece first. As you know, most of these projects are rather sizable. Some of them can be $0.5 million, and some of them are multimillion-dollar projects. We have a nice pipeline of that range. What we're seeing is that those will commence in the third quarter. But exactly which week, and they could move a few weeks whether they fully get completed in the third quarter, so I guess, what we were saying. So there is a bit of uncertainty as to whether all that revenue and profit will be in the third or part of it will be in the third and part of it in the fourth. And that's kind of what we're dealing with. And these are really very sizable projects. And some of them in environmental remediation, it really depends on when that site is prepared for it. So that's a bit of the movement, but still a very healthy pipeline in Environmental.

The Refractories business, Matt's comments mentioned that we're going to have another healthy year of equipment sales. Right now the profile of that looks to be more of the third, it's not a slip. It just kind of generally moves. Why don't I let Brett Argirakis take us through kind of where we were, and where we are in this year in our equipment business.

Brett Argirakis - *Minerals Technologies Inc. - VP & MD of Minteq International Inc.*

Sure. Silke, the timing really depends on the customer demand and capital availability. As Doug said, the last 2 years, we've recorded really strong sales for equipment for Minteq, and it really is largely due to the value and the performance of our laser measurement systems. This year, we do anticipate another strong year at least as good as last year. But again, more in line with historical back-end weighted sales. So we will have a strong second half and anticipate that happening in the third, but also even more heavily in the fourth quarter.

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

I think if you remember, Silke, 2 years ago, we had a really weak fourth quarter in equipment sales, and then last year, you saw a bunch of them come through in the second quarter, kind of like a pent-up. And then this year, it's back to more of the traditional fourth quarter-type profile.

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

And that's been sort of like $1 million to $2 million of business? Or is it something that's smaller than that?

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

No. Well, usually, we don't break that out, but it's more than that.

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

But can you call it a shift?

Brett Argirakis - *Minerals Technologies Inc. - VP & MD of Minteq International Inc.*

Yes.

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

Yes. Okay, okay.

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

Yes. These are -- some of these can be sizable projects, but the majority, again, I'd say, probably, maybe 25% of our projects are going to land in the fourth quarter of this year. More than -- I'm sorry, more than 25%, about 30% of our projects should land in the fourth quarter.

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

Okay. And lastly, I was wondering whether you can remind me like how large the Metalcasting business is in the U.S. versus China? And how large the greensands product sales are now in terms of size?

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

Jon, do you want to take that one?

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

Sure. So Metalcasting in North America versus Asia. I mentioned this in one of our calls, the volume is actually fairly similar between North America and China. However, what you see is higher prices being paid in North America. So you'll see about 45% of our business is in North America. You've got -- the rest being distributed in China and Asia and the rest of the countries worldwide.

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

Yes. And that is growing quite a bit, Silke, from the past couple of years, I would say 70% of our Metalcasting business 4 years ago was North America based. The growth that we've seen in China alone over the past 4 years has been almost at a compound annual rate of about 12%. And that business has grown from under $50 million to well over $80 million, $85 million where we are today over that period.

So from what like Jon said, from a volume standpoint, we've got a nice balance between kind of Asia total and the U.S., but from a sales standpoint, given that we're selling 90%, 100% kind of blended green sand bonds here in North America, that average price is much higher per ton. We're still selling the base clay for our foundry customers in China and India, and we're penetrating that higher margin, that higher price point blended product in those 2 regions. That said, that higher margin product for us is also higher margins for our customers. It saves them money and it enables a much higher casting quality for a growing more sophisticated automotive, heavy industry base in those regions.

Operator

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

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

I was just wondering, if you could talk about in the different category to different businesses, the level of the inventories, both at your customers locations and at Minerals Technologies?

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

Let me start that one. I guess it's very different by each business. I'd say our inventory levels in the Paper PCC business are probably the lowest, that's because we operate on-site. We probably have an average of 2 days to a week at max -- maybe a few days of inventory because we're constantly replenishing that inventory in those tanks on-site.

The opposite end of the spectrum, in our Performance Materials business, due to our mining activity and the volumes that we move throughout North America and around the world, we have sizable amounts of mining activity, we have some air drying of the most effective way sometimes to dry that clay is to do it in the open, and we will stir and move those piles because it's cheaper to do that than to put it through gas-fed dryers. So in that case, we hold quite a bit more inventory as we move it through our processing centers.

As Jon mentioned earlier, the other side of that, kind of value equation in Performance Materials like Metalcasting, it's more like Paper PCC. We're blending real-time for our customers. And so we'll hold a few days of inventory at the site, actually more than that we'll hold a few weeks of inventory at the site. We hold a lot of inventory in transit but we're blending on a real-time basis and adding that value on a real time.

Recently, we've been increasing that inventory in that business. We've been adding strategic locations. We've been adding safety stocks to make sure that we can deal with issues like we saw this past month and that's a reflection. Our ability to keep customers supplied, given a 3-day outage of the main arteries is a reflection of that kind of investment in more inventory, frankly. So it really varies by business. I think the other businesses of Minteq and our Performance Minerals business are kind of on the average in terms of raw materials and stock for sales. Does that help?

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

Yes, it does. I guess, I was really wondering if there is a slowdown, which you seem not to be expecting in any categories. It is more -- if I heard there, it was incorrectly, it is more the weak level of the second quarter as opposed to another drop. So I was wondering, if there is some additional decline then you are going to be stuck with inventories as your customers will deplete their own. So do you have a feel for customers inventories, and therefore, the potential negative impact on your operations, if there is further slowdown?

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

Yes. No, we keep very close tabs on that, and we'll look at demand. We manage our inventories very closely. When things slowdown, we can pull back very quickly on those production volumes. We're moving, again, having to move ours out of our plants and out of our mining sites to make sure that we don't get anywhere ahead of those inventories. What tends to happen in a company when you see through a slowdown is that inventory tends to reduce and working capital in total reduces and you start to see the cash generation for the company.

So we keep very close tabs on that Rosemarie, and we will pull back on inventories very quickly. Our customers -- a balance we have some customers that stock and then as part of our value proposition, as I mentioned, we will take some inventory for customers and deliver real time. We're very cognizant of kind of forward volume demand, and we pull back very quickly if needed.

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

Okay. Great. And I was wondering you have just signed a commercial deployment for Envirofil. Could you give us a feel for the potential of that particular contract? And the potential for Envirofil, if we look at the next couple of years?

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

Sure. D. J., why don't you take that?

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

Certainly. So Rosemarie, this particular customer that we had was at an existing satellite. So we worked with them to validate the concept and so this particular application is a slight increase in overall consumption, but improved profitability for both us and the customer. We're going forward, let me just remind you that Envirofil is where we take deinked sludge basically from the process. So it requires a well-developed recycling program and infrastructure.

So the primary target is Europe, although there may be some other applications. As we look around the world, we've had some recent inquiries in North America. But we've got something a little under 10 active discussions right now, and you're looking at a market opportunity that's in the tens of millions of dollars as we look at that market. So it's a nice augmentation to our strategy primarily emphasized in Europe and it's creating conversations with folks that typically would not be looking at PCC.

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

Okay. So in other words, you may get some additional PCC customers just as a result of this particular Envirofil offering? Am I reading that correctly?

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

You are, and that is part of our strategic thrust. So as we're going into these conversations around the world, we continue to highlight our ability to offer the world's premier PCC and a portfolio of additives and products that increase filler levels. But we're also going in with, basically, a portfolio of things that address increasing environmental issues, whether it's dealing with some pulp mill problems that we tend to deal with with NewYield or addressing some deink problems that we address with Envirofil. We've built a capability that we think is going to be increasingly valuable to the industry.

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

Yes. It's really twofold, Rosemarie. Not only do technologies like this enable new conversations with new customers, as you pointed out, but it also enables us to expand our presence and relationships with existing customers. So we are -- we sit on almost 60 different paper mills around the world and they have different challenges. China is different in terms of issues that they're having than Latin America than Europe, this one happens to be more Europe, but allows us to expand that relationship. And while we're sitting on these sites in partnership with our customers for an average of now 20 years, each of these, we can do more for them.

And so these technologies are geared to those issues, specifically in those regions, but also, they help us with selling the base volume, the base PCC in the first place. And we think that's the investment thesis that cash flow return to the base business plus the higher margins that we can do as we solve problems while we're there over the span of our relationship together.

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

All right. And then lastly, if I may, what is behind the slowdown in China on the Paper PCC side?

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

I think it's general economic activity. We've seen -- we've had some pullback, I think, from inventories that may have gotten higher last year. I think that also we've seen a pickup in Indonesia, there's some dynamics that go along with that. And I think some of the packaging volume that we have in China has also been a little bit slower. D.J., I don't know if there's anymore color on that. But I think it's general economic, some site specific, I think.

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

It is then -- as we look at it, Rosemarie, it tends to be just associated with the general slowdown in China. And I think the Chinese market is also dealing with the fact that the Indian marketplace and the Indonesian marketplace are getting more competitive on exports and India is getting more competitive at just keeping imports out. So -- and of course, China has been less competitive to the U.S. as well.

So it's a combination of items. We still think -- I just want to highlight though that that slowdown is affecting our existing customers and that will come back over time. But it's not hurting at all our value proposition for the growth. So Doug had mentioned some 20 opportunities that are in our growth pipeline and not quite half of those are in China. So we still have a very compelling value equation despite this industry interruption because what we're able to do is very local, very localized and so it's -- the slowdown isn't impacting that ability to penetrate.

Operator

We'll now take our next question from Steven Schwartz from First Analysis.

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

If I could just continue that discussion around the general outlook, you know when I look at your Slide 5 and we see the down red arrows in Metalcasting and in Basic Minerals and just to hear you talk about some of the drivers behind that, it's just -- it's difficult for me to not expect that some of your other businesses with those yellow orange sideways arrows will inevitably be affected. And certainly more people are talking about the potential of a recession. As you guys sit in strategy and outlook meetings, how are you assessing that these days looking out 6 and 12 months? And where is the potential biggest weakness?

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

Yes. Thanks, Steve. Look, where we -- that slide was intended to give you kind of what we see through the next 2 quarters. It was -- right now, it's a little bit hard to predict where we're going to go next year. We have some new trade tensions that are out there that we're currently digesting then we'll see how that impacts kind of both economies. But right now, I would say that we still see based on consumer -- let's start with our consumer type elements and those are the Household and Personal Care, and we see that's continuing to be strong. It's not a 10% type growth per year business. This is kind of a very steady 3% to 4%, and it's really driven around the economics of kind of more GDP growth where we're positioned in terms of a pet ownership and in particular cat ownership, that's driving that. That's relatively steady and it's not -- I won't say it's recession proof, but it is not cyclical in the nature of some of our other businesses.

In the Environmental Products business, we're still very positive on that also because it addresses markets that are not necessarily recession oriented. These are projects that need to be completed from an environmental remediation standpoint. They are projects that have to be done for any type of activity and type of aluminum production or coal-fired power plants or other challenging kind of riverbed remediation activities, so that's not certainly something where we think, and we have a nice portfolio that we feel will continue to drive that. We talked about Metalcasting and Basic Minerals. So it's really kind of automotive, general industrial, foundry production and drilling activity in North America.

Paper PCC, we talk about that a lot, kind of running down the slide here, Steve.

We see some -- we have some potential weakness, and I'm starting to see weakness in our paper customers in North America. Right now, we see the paper rates continuing to be relatively stable. But we do have -- I think there's one area that we're keeping our eye on it, any further weakness in North America. Offsetting that, however, is our growth in India, and as D. J. just mentioned, Indonesia and our new satellites that are coming online.

I think in our Processed Minerals business, there's some potential there. Those products, the Talc and GCC, are driven toward construction and automotive markets. And so I think you'll see, if construction continues at it's what we see is relatively stable this year, but if it drops next year and automotive continues to decline. Those 2 what we're saying is probably little bit sideways for the rest of this year, those could be impacted.

Within our Refractories business, we still see a relatively stable North America market. We've mentioned that we're starting to see that weakness in Europe. But I would tell you, that we're probably a little bit closer to the top in the steel industry. We still have some room to grow. Imports are actually down in the United States. There's some new capacity coming on line that I think we're well positioned to grab. So I think there's still some upside in North America steel, but we're also cautious that we're probably going to move sideways in that one and probably closer to the top in Refractories.

Energy Services, I think we're starting to see the offshore activity. We're cautious on it. It's starting to move forward. We're seeing more activity in there. As we mentioned, we have a number of bigger projects that are out there much more than last year. But again, we're still cautious kind of where oil prices are in that activity.

So I think the biggest vulnerabilities will probably be in Processed Minerals and perhaps Refractories. And we've given you the Metalcasting where we see the most near-term impact. Does that help?

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

Okay. Yes. Oh, certainly, yes. And I'm with you in the sense that you do have a market share and a value proposition opportunity that can offset macro situation. But just wanted to go through that with you.

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

And I think that's -- no, I appreciate that. And I'm glad you brought that up because I think that's where we find the strength. We're investing our money -- that's where our capital is in those activities that we see sustainable, sustainable those long-term opportunities to drive value, and I've outlined those in my comments where we see those highest cash flow returns, long-term returns.

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

And Steve, at the same time, to put it in perspective from how that's impacting our daily discussions and what we're doing, we've done the restructuring which is reflective of where we see the markets in the second half. You heard Doug talk about how this is looking through the second half, including the fourth quarter, and we are maintaining the discussion around how we are going to act if there are additional changes. So the best of what we've seen today is what we're showing, but as Doug had already said in his prepared remarks, we're staying nimble and agile in how we're going to address variable costs should you see volumes come down.

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

And that actually leads me to my next 2 and final questions. And this builds on some questions that Silke brought up. On Slide 9, can you -- number one, can you talk a little bit about technically what the severance and impairment is? So who in the organization is behind the severance matters? And what assets in particular are being impaired? So that's the first question, if I could. And then the run rate of savings, the $12 million. When I look at your guidance for the operating income for the third quarter, you -- it looks like your operating income just in that quarter alone is going to be down $11 million. So when I look at where you were down in the second quarter year-on-year, now third quarter guidance year-on-year, can you frame up what's going to happen over the next couple quarters in the context of this $12 million savings?

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

Yes. Steve, let me take that one. So when you look at that impairment slide, the severance-related costs associated with north of 100 people salaried individuals in the company. The way we looked at that is, we found -- when we make adjustments, we look for inefficiencies and opportunities to tighten ourselves even further both in kind of our back office functions but also in our plant structures, right? So -- and some of that is tied to the impairment of assets. We see a more efficient manufacturing base to tighten ourselves up further and lower cost and still maintain the service quality to our customers and primarily in our Building and Environmental.

So there's some severance associated with just putting ourselves a little tighter in cost and capturing some efficiencies where we see that, and there's some severance cost associated with those asset impairments, associated with facilities that we feel we can remove and still service at a high level and lower cost for our customers. And those are -- and the majority of those impairment costs are in the Performance Materials business and severance is in those -- is in Performance Materials.

That $12 million full run rate savings should start in the first quarter, and that is the first half, we'll be there. Right now, we're working through those severance issues right now in the company in the third quarter. There'll probably be still some in the fourth quarter as we move through it, but we're trying to move through this as quickly as possible for the organization, and we think some of those savings -- those savings will be in the fourth quarter, but will be at that full run rate we know by kind of the first part of the year.

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

Sorry. Steve, one thing to add. Just as you're looking on that year-over-year perspective, that delta from 68 -- if you do some math on where we projected the third quarter, really the -- what we've talked to you about this entire call has been, the change from that April run rate to the May and June run rate in Performance Materials. And so those market volumes combined with what you have on a PCC basis and we've outlined on the slide that, that was $1.2 million for PCC shutdowns on a year-over-year basis, that will impact you again. And then Energy Services, we outlined at being lower too.

So just to bridge from a market perspective, that's by and large the largest driver of those volumes that are continuing at the rates that we've been seeing in the last 2 months of the quarter on a sequential basis, so again, obviously, year-over-year comparison, but the dynamic that we have today is continuing.

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

So Steve, we see this third quarter being a weak one as we continue to absorb and move through these costs, we need to move these costs through, okay. But however, we do feel positive on many projects that are going to come in the fourth quarter, and we don't see a general market deterioration continuing into the fourth quarter at this point. If we do, we've got some other levers that we can pull in terms of making sure that we adjust our cost base even further.

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

Okay. So from -- and I understand you don't normally get into -- going out more than one quarter on the forecast. But as we model out, think about the seasonality third quarter to fourth quarter, it could be atypical from how it usually goes, if I'm hearing it correctly?

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

I think the seasonality will be typical. But right now, we're not saying that there's any acceleration in the decline of our markets. We think from the third quarter levels, they're going to remain that way in the fourth quarter. That said, going back to our discussion, we continue to watch this. So technically the delta from the third to the third and the fourth to the fourth should be the same only because of seasonality.

Operator

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

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

I had a couple of questions on PCC, and then I actually had a working capital question. So on PCC, I think you've kind of discussed this, but I just want to make sure -- I would like to clarify that from your perspective, we -- it won't be until the first quarter of 2020 that might be the nearest time when we should expect to see positive year-over-year comparisons in revenues from PCC. That would be one question.

Then I'll just ask the next one, but I was hoping you could maybe add a little color to your -- mention of the project funnel for new PCC plants? And in particular, you used the number 20. And I guess, I'm just kind of scratching my head, but I'm assuming, you have a very high success rate. And I

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look in the past few years when you've had maybe 1.5 or so announcements per year of project wins. So when you say that the project -- new project funnel is 20 deep, I mean, should we be expecting a meaningful pickup in the announcements of new PCC contracts?

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

Okay. Let me start with the first one, David. Right now, we're projecting that new volumes and we have 2 main projects and a few expansions that are in the works right now is -- they're going to come on late -- probably in the second quarter -- late in the second quarter of next year. So we have a sizable amount of volume coming on in the next 12 to 15 months about 250,000 tons over the next 12 to 15 months will be put in place. Again, it takes some time for those to ramp up, and so it's hard to project exactly right now when that volume will come on line specifically. But should be through the second -- third quarter of next year. You'll see that sizable amount of opportunity come in. Balance that against, what Matt mentioned, we're seeing 5% to 7% declines in China. And I can tell you right now or put myself out as to when that will start to pickup, there's a number of factors that we mentioned earlier, that's also pulling down some of those volumes.

The pipeline of opportunities and I'll let D.J. talk a little bit more about this. We maintain a pipeline and some come in and some come out, and we're always looking for -- but it expands based on new products we develop and it shrinks because some of those new products are not going to be successful at certain customers. But we've always maintained a 20 to 25 kind of target list of real opportunities around the world for both base PCC volume and a filler. PCC volume that goes into packaging applications and opportunities for our new technology, that's kind of the way we're talking about our technology pipeline.

D.J. is going to take a moment to give a little bit more feel of how that moves and timing of some of these, they move forward and backwards over time?

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

Yes. Glad to. So for starters, in terms of success rate in hitting things, we've got -- to the extent that a person or a organization makes the decision to change, we have a very high success rate. So that's what has contributed to a market leadership position.

The other part that Doug mentioned that I would like to go into further, which is kind of new for us is this penetration into packaging. So as I look at those 20 opportunities, we are working very hard to increase our presence in packaging and probably 1/3 of those opportunities are packaging related and that's where an awful lot of traction has come. And that -- those packaging opportunities are in all of the regions and the ones that are furthest along are in our most developed regions of North America and Europe. So more to come with regard to how we're able to convert those, but that is a relatively new dynamic in this.

One of the things that we have seen in terms of the decision time line is that, that has taken longer for us and I had mentioned it earlier, this major satellite that's coming on with Chenming, we were expecting that much earlier than the middle of 2020. But the dynamics in China around environmental rules, regulations and permitting have slowed us down a little bit. So the speed with which we can convert a contract into revenue and volume, slowed down in China, everywhere else it's pretty much, call it, a 9-month to a year contract to conversion. So hopefully, that gives you some color, David.

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

Yes. David, I want to make sure we're answering your question. You also said, do we expect to see an acceleration? Well, I'd tell you, I'd say, 5 contracts and 3 expansions over the past few years has been an acceleration from where we were prior to that. I think we can go even faster. I think we've got a nice pipeline, and the reason I think we can go faster is because we've got an even broader pipeline of opportunities to chase. We've got new technologies that weren't developed 4 years ago, such as Envirofil. We've got a new FulFill product that's starting to enhance some of our other older FulFill projects, there's some replacement there. We've got variations of NewYield that we had a single product, now we have variations on that product.

So you've got multiple fronts to go after. So yes, I would expect that we have more fronts to go after and accelerate kind of new contracts. That said, we have -- each one of these takes a different amount of time. We've chased satellite contracts for several years before signing. On the other hand, we've had contracts that have come up, and said, let's go, and we can do that in 6 months. It's a little bit hard to predict exactly the situations. But we work at these and we move them, and I think our strategy of broadening that portfolio enables us to be able to hit on more fronts and start to -- and be even more competitive while we were having those discussions vis-à-vis competitors.

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

I'm kind of new with this. I have this question -- I'll apologize in advance for being kind of wonky. But I had a question about your net use of, kind of, working capital over time. So if I look at the 10-K, there was -- and here I'm talking about the changes in operating assets and liabilities so kind of the classic working capital accounts at the bottom half of the first section of your cash flow statement. But in 2016, there was a use of working capital; 2017, there was a net use of working capital; 2018, there was a larger net use of working capital; and in the first quarter, another, I don't know $39 million or so of use of working capital. And when I think about your revenue base on that, I mean, I think 2015 was around $1.8 billion and you're kind of tracking at around that same $1.8 billion top line level this year.

So I'm kind of scratching my head and I'm wondering if that kind of continuous use of a maybe $200 -- net $200 million of working capital over that time make sense? Or whether maybe there's an opportunity to release a significant portion of that increase in your net working capital requirements over the past 3 years or so?

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

Yes. David, I think if you take a look over that timeframe with the growth that we have had in the mix of our revenues, it's been a tilt towards geographic. And what we've talked about over the past couple of years is how -- as we've been moving more into Asia, more into regions outside of North America, the terms have been extending on the accounts receivable side. At the same time, as we've been managing the growth throughout the world on the Performance Materials side, you've been seeing us increase the level of safety stock in terms of clay moving between facilities, clay to our customers and clay that we have available to be processed, and a lot of the reasons around that is to ensure that we keep our customers up and running and keep the overall performance stable. And over that timeframe, we've had a number of very hard winters, some very difficult shipping conditions and those higher safety stocks have allowed us to keep everyone up and running.

As you moved into 2018, in the second quarter, you saw an uptick as we acquired Sivomatic, that was worth about $20 million in working capital, which -- it brought with it. And so we've now been at a place of running overall in that $400 million to $410 million total working capital level. And when you look at what we're saying today about managing through some continued difficult supply chain items, the logistics issue that we had in our Western mines that, that higher level of safety stock helped us through those periods. And at the same time, the geographic growth mix has been trending in that direction.

Where your question is going is, okay, now that you have this level of working capital in place, what is your ability to pull efficiencies and cash flow from this working capital. And that's absolutely what we are working on. The efficiencies within inventory, yes, on a year-over-year basis has grown. And we've been working towards delivering additional items in terms of how the plants are operating and the logistics that we're using to pull more efficient inventories throughout the system. From an accounts receivable perspective, year-over-year, they're down about 3% as are our accounts payable up about 3%. So we've been working all the way through in terms of pulling on the levers to drive those efficiencies.

I mentioned and you've seen on our bridges, higher raw materials, that has helped inflate some of that inventory position, but overall, we do have strong levers to drive that free cash flow out of working capital. And we're going to continue to do that. It's part of the reason that we've been saying even in this environment where there are challenging market conditions, we're continuing to target about $150 million in overall free cash flow. That embeds in it CapEx in that $70 million to $80 million range, although in these current conditions, will probably be more around the $70 million mark. So that tells you, based on that, the cash from operations is going to be in that $220 million to $230 million range. So working hard to continue to drive out working capital going forward.

Operator

We'll now take a follow up from Silke Kueck from JPMorgan.

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

Just a really small one. How big are your FLUORO-SORB products now? And are any of them being used in clean up of the PFAS-related issues? Or do you see that increased use of that in the future?

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

Yes. Silke, that product, I'm going to turn over to Jon to give you a dimension. But we actually just launched that. That was one of the highlights of our second quarter. We had a formal launch. We've been working on that product for a number of years. That FLUORO-SORB product is directed specifically toward PFAS water remediation. So it's yes, that's exactly what it's designed for. We launched that just recently with a number of companies, interested parties, some universities that have done the studies, and we see some really good current demand.

Sales of it are actually quite low right now but we're looking at the portfolio of demand that we're seeing going forward and that's part of that portfolio that I talk about that says, we're very positive on these new technologies and the size of the opportunity for -- the PFAS opportunity for our FLUORO-SORB. Jon, do you want give us a little more color on that?

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

Sure. Absolutely, Silke, and glad you asked about FLUORO-SORB. We're pretty excited about it. As Doug mentioned, new technology entirely focused on PFAS remediation - probably has some end users other than that. But right now it's too early to tell. Last time, I think we reported that we have our NSF certification, which allows us to play in a variety of markets where that's required. We have a product portfolio right now of 4 products, and we just had a very successful launch out in Chicago, where we had, I think it was 4 academics that came in and talked about the applicability of our product versus others in the marketplace and the efficacy in treating the PFAS either in water, predominantly in water, but also in soil as well.

At that same launch, we had a variety of customers, and also, we had some press. It was a very effective launch. And based on that, there's a lot of pent-up demand as you know in these markets, a lot of people searching for solutions. We've got a lot of progress on customer trials, and we expect our first sales coming here in this quarter and likely fourth quarter as well. How big it's going to be? It's a little early to tell. We have visions that this is probably multiple tens of millions, but we don't know yet, and we'll come back with you with a more accurate read as we get further along in our product launch, and we get the demand from the customers.

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

And Silke, let me just add. Let me give you a quick value proposition of what this really is. It's -- there are other products out there that will take PFAS out of water. But what we have is a product that is low cost that is kind of a work horse. We can get you very far along the way of removing the contaminants, not all the way, but very far at a very low cost position. And then you can use other products to get it entirely. But looking for that type of heavy hitter horsepower that we can do high volumes of work, and I think that's something that -- that's kind of where we're targeting this new product. So again, a little early to tell how it goes, but right now, from a testing standpoint, certification standpoint and customer standpoint, it looks very positive.

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 IR*

Thank you very much, Anna. Thank you all for joining us today. We look forward to speaking with you again very soon. Have a great day.

Operator

And once again, that does conclude today's conference. We thank you all for your participation. You may now disconnect.
