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PRESENTATION

Operator

Good day, everyone, and welcome to the Fourth 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 fourth 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 to 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 for the introduction, Cindi. Good morning, everyone. It's nice to have you with us today as I walk through our results for the quarter and the full year of 2019. I'll give you my insights on the year, focus on our key operational and strategic highlights, and Matt will then discuss our financial results in more detail and outline our first quarter outlook. Following that, I'll finish by discussing our priorities and initiatives for 2020 and the current trends we're seeing across our end markets.

Let me start by giving you some takeaways for the fourth quarter. From a financial perspective, total sales in the quarter were $440 million, and we generated $53 million of operating income, with earnings per share of $0.95. These results reflect the persistent market softness we've been experiencing over the past few quarters, with the most notable impact coming in our Metalcasting, European Refractories and North America Paper PCC businesses.

Throughout the quarter, we continued to tightly control costs, drive productivity improvements and implement pricing actions. While operating in this challenging market environment, we drove growth across several of our product lines. Our pet care business continued its momentum as we grew our private-label portfolio, leveraged the strength of Sivomatic in Europe, and saw strong sales of our new fragrance boosters. Higher activity in the construction market as well as the deployment of newer waterproofing solutions, supported sales in Building Materials.

Robust customer demand for our latest rheology-modifying sealant products, led to a strong quarter for specialty PCC. It was also a solid quarter for our Ground Calcium Carbonate business.

We delivered overall growth in Asia, driven by sales increases in China, India and Indonesia, and volumes of our greensand bond products in China increased 19% as we continued to demonstrate the significant value that our engineered products offer to our customers. And Paper PCC volumes in Asia grew 6% over last year, led by our new satellite in Indonesia, and a 14% volume increase in China.

Our Service businesses performed well. Energy Services had a solid quarter, and continued its positive trajectory with higher well testing activity in the Gulf of Mexico and increased deepwater activity in international offshore basins.

Refractories sales were down sequentially due to continued weakness in Europe and several furnace relines in North America. However, laser equipment sales were very strong in the fourth quarter, and segment margins were over 14%.

Cash flows remained robust through the fourth quarter, capping off a strong cash flow year for us. Operating cash flow for the quarter was up 14% compared to last year, and free cash flow was up 30%. All in all, we continue to implement operational measures to manage through the market weakness we've been experiencing, while also maintaining growth momentum across many of our product lines.

Before Matt takes you through our fourth quarter financial performance, I'd like to give you my perspective on 2019. What I was most encouraged by was our team's solid operational and strategic execution against the backdrop of changing conditions in several key end markets and geographies.

Our team's resiliency, execution focus and agility were on full display throughout the year. Our performance reflected our continuous improvement mindset and focus on aggressive cost control as we implemented decisive measures to adjust our operations to align with changing market demand. And during all of this, we advanced several strategic initiatives that support our long-term growth.

Let me summarize the progress we made advancing those initiatives. We're focused on growing in more consumer-oriented markets through our Household, Personal Care & Specialty businesses. These are attractive markets with stable long-term growth potential, and we have unique capability and resources to serve them. This product line was up 8% for the year, driven by the strength of our global pet care business as well as increased sales from our broad portfolio of high-margin specialty applications such as Bleaching Earth for edible oil clarification and products for the Personal Care and animal health markets.

Our strategy to shift the Environmental Products business from base geosynthetic clay liners to a higher value portfolio of specialized technologies gained significant traction, with sales up 8% and margins that more than doubled over last year. Sales of these specialty products grew by more than 40%, and we have a robust pipeline of additional opportunities to secure this year. We're well positioned to support more complex landfill remediation and water treatment issues and also address these large market opportunities globally.

We are the world leader in greensand bond systems for the global foundry market. And there are significant opportunities to leverage our deep technical expertise and demonstrate our value proposition with customers in large foundry markets, such as China and India. This year, we extended our penetration into the China foundry market as volumes of our tailored-blended products increased 7%, despite the soft foundry market conditions we experienced.

We are also the world's largest producer of Precipitated Calcium Carbonate, with the most advanced technology portfolio. Our technologies help customers increase base filler levels in paper, address environmental and recycling needs, and provide solutions for their premium packaging applications.

In addition, we also offer high-performing PCC rheology additives for the automotive and construction sealants.

Our strategy is to expand our PCC volumes globally through each of these initiatives, and we made considerable progress in 2019.

Our 125,000-ton satellite in Indonesia came online in the first quarter and helped drive paper PCC sales growth of 7% in Asia. We also secured the permits for our next satellite in China, which will be our largest PCC plant globally, when fully operational. And in India, where our volumes were up 10% in 2019, we signed 2 new satellite contracts and started the construction on another expansion.

On the technology front, we deployed a new variation of FulFill, called FulFill plus, which is the most cost-effective technology to increase filler levels in paper. We also expanded our applications into the packaging market with a contract in Europe, as well as through the deployment of Envirofil, a technology which addresses the sustainability challenge of paper recycling.

Last, we introduced several new Specialty PCC products to the market and supported that demand through capacity expansions. Innovation and new product development is a core strategy for our company, and we made noticeable progress strengthening our pipeline this past year. Specifically, we commercialized 55 products, and our revenue derived from new products was up 10% over last year.

We leveraged our operational excellence tools with our R&D capabilities to develop higher-value products on a faster time line. This year, I've highlighted many of our other new technologies such as FLUORO-SORB, NewYield, Resistex and Additrol low-emission technologies -- formulations, all of which reflect our enhanced focus on developing products that address broader environmental and recycling issues for both MTI and our customers.

These new products, which give us a more comprehensive and differentiated solutions offering, are essential for supporting our growth strategy into new markets and geographies. From an operational standpoint, we overcame several obstacles this past year. As market conditions noticeably softened in May and June, we took decisive actions to align our cost structure with the new demand environment. Throughout the year, we also continued to drive pricing actions to offset the inflationary cost pressures that we've been facing.

The engagement of our employees around our culture of continuous improvement enables us to navigate through these types of conditions, while also remaining focused on advancing our growth initiatives. We conducted 10,800 problem-solving kaizen events and received more than 65,000 suggestions from our employees throughout the year. To put this in context, each day, on average, nearly 30 kaizen events are being held across the company, and we're receiving 178 suggestions from our employees on how to do things better. This is a tremendous level of involvement in the operations of our company from all 3,630 MTI employees, demonstrating the power of our culture. Throughout the year, we remain focused on cash flow generation and strengthening our balance sheet. We generated $173 million in free cash flow which was 36% higher than last year. We used this to pay down $92 million in debt and returned $48 million to our shareholders through share repurchases and dividends.

Lastly, sustainability has always been a core value of our company. In 2019, we took steps to further advance our sustainability initiatives by establishing environmental reduction targets in 6 areas, which are outlined in our most recent sustainability report. These new commitments bring more focus and clarity to the environmental aspect of our sustainability efforts and are fully aligned with our overall corporate strategy and financial goals.

All in all, 2019 was a productive year for MTI. Though we faced some distinct market and operating challenges, I'm proud of what our team accomplished during the year. The momentum we generated and growth initiatives that we executed on in 2019, provide a solid foundation for sales and earnings growth in 2020.

I'll give you more of my perspectives on the year ahead at the end of the call, but let me turn it over to Matt, who will take you through our fourth quarter results and first quarter outlook. Matt?

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

Thanks, Doug, and hello, everyone. I'll review our fourth quarter results and full year results, the performance of our 4 segments, and I'll also provide you with our outlook for the first quarter. I'll then turn the call back over to Doug for some additional perspective on the year ahead.

Fourth quarter sales were largely as expected, with market trends consistent with the third quarter, apart from our typically lower seasonal volumes. The bridge on the left shows the sales change by major driver. Foreign exchange impacted sales by $3.2 million or 1 percentage point. We drove price increases of $5.6 million in the quarter. However, these increases were partially offset by $4.5 million of lower market-based pricing for specialty sands. The biggest driver of change in overall sales versus last year was unfavorable volume and mix, primarily due to the continued market weakness in Metalcasting and European Refractories as well as the shutdown of 2 paper machines in North America.

The operating income bridge shows that the volume, mix and higher raw material costs had the largest impact. Our pricing actions continued, generating $1.1 million in the quarter. We also had onetime items, resulting in an unfavorable comparison to the prior year, including corporate mark-to-market adjustments and a higher provision for bad debt.

We generated $2.6 million of savings from our restructuring program in the quarter, and we are on pace to meet our $12 million annualized savings target.

Operating margin was impacted by volume and mix, but the largest impact this quarter came from the unfavorable onetime cost comparisons.

Earnings per share, excluding special items, was $0.95, and our effective tax rate was 17.6% for the quarter.

Now let's review the full year results. Sales for the full year of $1.8 billion was similar to 2018. However, there were a number of factors that affected our sales. The unfavorable impact of foreign exchange was largely offset by 4 months of incremental sales from Sivomatic, which we acquired in May of 2018. We experienced market-driven decreases in Metalcasting, European Refractories, Talc and North American PCC, which were partially offset by growth in Household and Personal Care, Environmental products and Energy Services as well as pricing gains across many of our businesses.

In terms of operating income, lower volume and product mix had an impact of $17.5 million, mostly driven by the sales decrease in our Metalcasting business.

Pricing actions totaled $23.1 million for the year and largely offset the raw materials and the other input cost increases we experienced.

Operating margin was 13.1% of sales, with the lower market-driven volume and product mix having the largest impact year-on-year. And 2019 earnings per share, excluding special items, was $4.23.

Now let's review the segments in more detail, starting with Performance Materials. Performance Materials sales were 3% lower than the prior year, primarily driven by Metalcasting, which saw continued weak demand in the foundry market and lower volumes and pricing in specialty sands. As Doug noted, Metalcasting penetration in China continued with greensand bond sales growing 14% in the country. Household, Personal Care & Specialty sales increased 4%, driven by higher Pet Care and Specialty Products. Building Materials sales increased 12% on stable North American construction activity. Environmental Product sales were 9% lower than the prior year due to the timing of projects. As Doug mentioned, full year Environmental Product sales grew 8%, as we continue to drive this product line toward a more profitable mix, including our higher-value Resistex products and water remediation solutions.

Segment operating income was $23.2 million. The change from the prior year was largely driven by the lower Metalcasting volume and higher raw material costs.

And now looking to the first quarter, we see similar market conditions to the fourth quarter in the majority of our product lines. We see continued growth in our consumer-oriented and specialty businesses. In Building Materials and Environmental Products, we should experience a typical seasonal uptick in March. And overall for this segment, we expect operating income to be similar to the fourth quarter.

Now to move to Specialty Minerals. Sales for this segment were relatively flat versus the prior year. Growth in Paper PCC in Asia, driven by the ramp-up of a new satellite and capacity additions, was offset by lower sales in North America due to paper machine shutdowns. Specialty PCC products increased 2% due to higher volumes from our demand driven expansions and sales of Processed Minerals were flat overall as higher GCC offset lower Talc sales.

Segment operating income was $19.4 million. The year-over-year change was primarily due to the paper machine shutdowns in North America, lower Paper PCC volumes in Europe and lower Talc sales into automotive applications. We are focused on growth initiatives in PCC to offset market declines in North American paper. As Doug highlighted, we're in the process of constructing approximately 250,000 tons of additional capacity in Asia and Europe, and we are also expanding capability in Specialty PCC. Now looking to the first quarter, we expect the market conditions that we experienced in the fourth quarter to continue for PCC and a typical seasonal uptick in March for Processed Minerals. And overall, for the segment, we expect operating income to be similar to the fourth quarter.

Now let's turn to Refractories. Refractories segment sales decreased 6%, primarily due to the continued soft steel market conditions in Europe. We also experienced lower U.S. volumes as a result of several furnace relines in the fourth quarter of 2019. These relines had a temporary impact on customer demand for our products as newly relined furnaces require less monolithic refractory for a period of time. Laser Equipment sales were a highlight of the quarter, with December installations the highest on record.

And now looking to the first quarter, we expect lower Refractory volumes due to the furnace relines as well as unplanned furnace outages at 2 U.S. integrated mills. We also expect fewer Laser Equipment sales coming off a very strong fourth quarter. And overall for the Refractories segment, we expect operating income to be lower by $1 million sequentially.

Now let's look at Energy Services. Energy Services had a solid quarter, with sales up 16% and operating income up 9%. Sales growth was driven by higher well testing activity in the Gulf of Mexico as well as increased demand for our services internationally. In addition, we're seeing strong pull-through from our Orca technology offering in the Brazil and Asia Pacific deepwater markets. We have a strong pipeline of process equipment sales, and we see well testing activity remaining stable. Overall, for this segment, we expect operating income similar to the fourth quarter.

Moving to our cash flow and liquidity in the quarter. We generated $80 million of cash from operations in the fourth quarter, bringing the full year total to $238 million, and full year free cash flow to $173 million, which was up 36% from 2018. And in the fourth quarter, we used our free cash flow to make $23 million of debt payments, repurchased $20 million of shares under our $75 million share repurchase program. Our total liquidity is strong, with cash and equivalents of $243 million at the end of the fourth quarter and $200 million available on our revolving credit facility.

Our net leverage ratio stands at 2.1x EBITDA, and we will continue our balanced approach to capital deployment in 2020.

Now let me summarize what we are seeing for the first quarter. Overall, we expect generally similar market conditions to the fourth quarter in all segments. We see continued growth in our consumer-oriented and specialty product lines. In addition, our pipelines in Environmental Products and Energy Services are strong. However, in the first quarter, we expect North American Refractories volumes to be impacted by furnace relines.

Finally, we are closely monitoring the developing situation in China. Given the events happening in the country, we could experience extended downtime, which would impact volumes in Metalcasting and Paper PCC. In sum, we expect first quarter EPS to be between $0.90 and $0.95 per share.

And now I'll turn it back over to Doug to share our perspectives and key priorities for 2020.

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

Thanks, Matt. Before beginning the Q&A portion of the call, let me provide some high-level themes on the year ahead and our operational and strategic priorities. First off, our team is energized, aligned behind our culture and objectives and prepared to execute on the attractive opportunities in front of us as well as navigate potential obstacles.

As we start the year, conditions in our key end markets are similar to what we experienced in the second half of 2019. One difference, however, is our customers have largely adjusted their inventories to these lower demand levels. We expect these market conditions to remain through the first quarter and our visibility to any improvement beyond that is a bit limited right now. Against this backdrop, we're well positioned to benefit as these markets strengthen.

The positive momentum that we generated last year across several of our product lines and geographies will continue, and we have a number of projects ramping up throughout the year, the combination of which lay the foundation for sales and profit growth in 2020.

We'll be bringing online more than 250,000 tons of additional PCC capacity in Asia and Europe, driving volume growth later this year and into 2021. In Specialty PCC, we anticipate another solid year, supported by our capacity expansions. Our Metalcasting business will continue to penetrate large global foundry markets with our engineered greensand bond formulations. We will build on the momentum we generated last year in Household, Personal Care, Specialty and Environmental Products businesses. And in Energy Services, we expect another solid year with a strong pipeline of offshore well testing and filtration projects.

New product development continues to be a priority for us. And this year, we'll further accelerate our product development processes and introduce an increased number of tailored products that address our customers' needs. We will also be focused on margin improvement through pricing actions across our product portfolio, savings in our supply chain as we've seen inflationary pressures begin to taper as well as cost control and productivity improvements. In addition, the cost reduction initiatives we implemented in 2019 will help drive margin growth this year.

Our strong balance sheet, with our debt levels -- debt at target levels, gives us the flexibility to deploy capital to shareholders through dividends and share repurchases and also toward acquisitions, where we have a healthy pipeline of opportunities that align with our strategic growth initiatives.

To sum up the year ahead, we see a positive 2020, with some uncertainty in the first half of the year, giving way to a stronger second half as the growth projects we have in hand take hold.

Before turning it to questions, given the rapidly changing health situation in China, I thought I'd take a moment to address how this pertains to MTI. First and foremost, our focus is on the safety and well-being of our 500 employees there. But we're also maintaining close communication with our customers and suppliers. We have 15 locations in the country, none of which are in the Wuhan province. We're closely monitoring this fluid situation, and I'm in daily contact with our leadership team there.

With that, let's open up the call to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

And we'll take our first question from Dan Moore with CJS Securities.

Brendan Popson - *CJS Securities, Inc. - Research Analyst*

This is Brendan on for Dan. So I want to ask, if you go back to what you mentioned at the end with the coronavirus. I know it's probably changing by the day. But I guess, what would you say or maybe the, I guess, potential first, second derivative kind of impacts on the business? And you may have mentioned this, I maybe didn't catch it. But is it -- does that impact your EPS guide for 1Q? Are you still unsure of what -- how it's going to affect you, just because it's obviously, again, changing by the day?

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

Yes. It is -- thanks, Brendan. It is a fluid situation. We're certainly on top of it. We're contacting daily with our employees there. At the moment, all of our employees are safe and healthy, but we continue to monitor that constantly. Right now, we have 15 locations there. Right now, our save one -- our 7 PCC plants are all operational, except for one, which will probably be down until about the 10th of February. Our other 5 locations, primarily Metalcasting locations, will likely be down until February 10. Again, we're continuing to monitor both our supply chains and customer activity to make sure that we're in supportive of all that with where our employees are located. Many of our facilities aren't located in areas that are currently affected, but that obviously could change, so we're monitoring that.

I guess, from your guidance situation -- your guidance question, our guidance -- in the first quarter, we always build in some additional outages that typically happen in some of our customer base, normal years around the New Year Chinese holiday -- New Year. So we did that in that guidance. What it doesn't include is any significant extension in what's going on. And that -- we just can't measure that at the moment. But we do have some built-in there for some extended outages. But if it continues on for a longer period of time, that's certainly going to affect the EPS.

Brendan Popson - *CJS Securities, Inc. - Research Analyst*

Great. And then another question, just with changing gears to capital allocation. You're nearing that 2x leverage, and where you said you're more comfortable and obviously, you did some buybacks this year. I guess, what are you thinking for 2020? I believe you had a comment -- a balanced approach, so opportunistic M&A and some buybacks. Is that how you're thinking?

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

Yes. We currently have a $75 million 1 year program authorized by the Board, and we'll be executing on that. I guess, the way we look at it is, now that our debt levels are kind of to our targeted levels, we look at steering that toward share repurchases as a preference. But also, we continue to look at acquisitions and as they ebb and flow, we might pull back on that -- those repurchases and steer it to what we feel are attractive strategic growth acquisitions. So I think it's both. We'll see how the year plays out on both fronts. But right now, the priority is executing on that $75 million program.

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

Right. And through the end of the fourth quarter, we had already purchased $20 million under that program.

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

Brendan, let me just go back there, there might be another question, just to frame up China. Our sales on a given quarter in China are around $35 million. Margins are a little bit lower than they are on average for the company, just because of some of the new developments and start-up costs that we have there. But that gives you an idea of like a full quarter kind of impact. So it has an impact, but it's not -- overall, it's about 8% of the sales of the company. It's not overall significant to the overall operations in the annual quarter for the company.

Operator

We'll now take our next question from Silke Kueck with JP Morgan.

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

Thanks for all the detail -- on being able to, like, stage the effect of the virus. I appreciate that.

In your guidance, what are the price expectations that you have for the first quarter and also the full year in terms of selling prices?

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

Yes. Silke, as we looked at the first quarter guidance, what you have seen is a very similar market condition moving from the fourth quarter to the first quarter. And so the overall volume level and the mix that we have will be fairly consistent. From a pricing perspective, I think you've seen us over the course of the last 10, 12 quarters continue to drive pricing against inflationary factors, but also to get the value of our products that exist through the value contribution we provide to our customers. That's going to continue. So you will see us on pace with what we've experienced over the past couple of quarters in terms of overall pricing deltas on a year-over-year basis.

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

Okay. That's helpful. And I was also wondering whether you can talk about what was behind the strong growth in the Building Products division in the fourth quarter, which you said was up 12%? Was that a -- what was that an unusual business win or was it like a pricing dynamic? And how has that business fared so far through the month of January?

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

Yes. Silke, this is Jon. Thanks for your question. Building Products, like you saw, we had a good quarter. A lot of that is timing of projects. As you know, this business is highly dependent on construction markets worldwide. We have a fairly robust portfolio. We're introducing new technologies. So those certainly are going in our favor as our customers recognize the value proposition that we have. And looking forward, we've -- we're pretty well positioned with our products, our sales team, our production capability worldwide, which, as you know, we've restructured over the course of the past 1.5 years. But the fundamental reason that customers typically buy from us is the technical support that we provide them as well. So looking forward, we're well positioned to take advantage of the construction markets. The portfolio ebbs and flows based on timing and affordability to spend by the building owners or the municipalities that are building.

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

That helps, Silke? So...

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

Yes. That's helpful. And if I can ask the last question on the Metalcasting business. Did you have a how to view as to whether the automotive market for the year will be better or flat or lower, like I realize the first quarter was particularly difficult, but do you have a do you have a concept for what you expect for the year? Do you think things will improve? Or you think they will be more flattish for the year?

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

Well, right now, I've got a couple of different statistics that I've been looking at, and we're trying to marry that with -- it's not just automotive. I think automotive is probably about 40% kind of the end market exposure for our foundry customers, and that includes North America and China and India. Heavy truck, other agricultural off-highway is the other big sectors.

Right now, it looks as though, the automotive market is going to be down a little bit, but I think we're feeling from our customers right now, it seems flat. And right now, we're not seeing anything changed from an upward trajectory or downward through the first quarter. It seems to feel a lot like it was in the end of the third quarter, fourth quarter and into this first quarter. So largely, right now, it's flat. I can't -- we're constantly in contact with our customers. It doesn't seem that we're -- they're giving us much information on what they see past March. It's too hard in terms of the uncertainty out there. Heavy truck, lower than last year, that's going to have a smaller impact on the Metalcasting volumes. So I guess, what I'd characterize it, for the first quarter, it's going to be about the same. And right now, we're looking at relatively a flat market. The difference, as I mentioned in my comments is that what we experienced last -- through the third and fourth quarter was a lot of destocking. We saw that across some of our markets. We have seen that many of our customers have adjusted those inventories. And so I think that compounding effect is largely over. So I think should there be a catalyst that changes things in a somewhat positive direction, we'll benefit from that pretty quickly.

Operator

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

Rosemarie Jeanne Pitras-Morbelli - *Morgan Group Holding Co. - Research Analyst*

Could you touch on new products? You mentioned that new products for the year, revenues increased 10%, can you talk about the size on which that 10% apply? And then can you talk about it in terms of regions -- regional success?

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

Sure. So our new products, I'm trying to see how I can characterize this for you. So the way we talk about growth in new products, is anything that we've kind of commercialized over the past 5 years, we generate revenue from those products. Those are continued new and ramping up. And revenue from those new products has grown at 10% over last year. So they're seeing some increased traction from those new products. They're across our businesses. I would say, given the size of our Performance Materials business, the majority of them -- not the majority, but more than half of them are in that business. There's a lot of innovation going on across the broad product portfolio in our Personal Care business, in Metalcasting, Jon mentioned, our Building Products with new waterproofing products and, of course, our Environmental. So -- with our new remediation and Specialty Products. So they're a broad range, and they apply globally. In PCC, we mentioned our new technologies, kind of environmental -- addressing environmental issues and high filler technologies for paper customers. So the majority, I think, of the new product revenue growth is in Paper -- is in the Performance Materials business. I don't want to leave out Refractories. We've got a number of new hybrid technologies that's moving us deeper into the EAF market as production shifts away from -- over time, away from BOF. And that's been a big driver. So it's really across the company, and it is globally. We generated about over $100 million from new products this year. I'd tell you, a lot of that goes to replacing ourselves. So there's probably 50-50 in terms of what's really new growth, new avenues, and then 50%, it's upgrading a product for a customer need and replacing an older product to keep things -- our value proposition fresh. So hopefully, that characterizes a bit of the new product development. And we see that growing next year.

Rosemarie Jeanne Pitras-Morbelli - *Morgan Group Holding Co. - Research Analyst*

That is very helpful. And that brings me to my next question. You said that more than half of the new products was generated in Performance Materials. Performance Materials is the only one of your segments with the margins lower than what I was expecting as opposed to all of the other businesses, which seem to have done better than my expectations, which was based on your guidance at the end of the third quarter. So can you give us a feel for why you did better in some than you anticipated and then worse in Performance Materials, while you have a lot of new products, which I would guess, have a higher margin?

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

They do. I guess -- so what -- the way I'll answer that question is, Performance Materials was, when Matt showed you the impact on our mix. The majority of that mix change shift -- was shifted into -- in Performance Materials. So I would say the decline in Metalcasting globally, which has been one of our larger segments. And also, it has a nice profit margin to it.

Didn't -- wasn't not fully offset by the Environmental Products and the other product lines in that segment, which, right now, as we've mentioned, are lower margin right now, but we've been moving them up through that Specialty. So as those margins expand in those other products, that will aid the margin recovery in that segment. But the biggest issue in terms of margin in that product line or that segment has been the mix shift from Metalcasting to these newer and developing growth segments -- growth products. So the other businesses, more stable in terms of their mix impacted in Paper in terms of volumes this quarter, but their mix, which should mean their margins have been much more stable as we've seen.

Rosemarie Jeanne Pitras-Morbelli - *Morgan Group Holding Co. - Research Analyst*

Okay. And you -- if I just -- an easy question. Interest expense was about $9.9 million in the fourth quarter, substantially lower as you have paid down debt. Is this a good number to use for the next 4 quarters?

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

Yes. So Rosemarie, 2 factors in the interest expense that you'll remember: we have a component that's floating rate debt, that's probably about 40% of our overall debt, and the rest is fixed. And so as interest rates have come down in that market, you've seen our rate move a bit lower, but then we've also been paying down. So assuming that, that rate stays fairly flat, that approximately $10 million is a good estimate to use going forward.

Rosemarie Jeanne Pitras-Morbelli - *Morgan Group Holding Co. - Research Analyst*

Okay. And then, actually, you mentioned in your prepared remarks, some bad debt. Can you touch on that? What is the dollar amount? And given the environment out there, are you expecting a lot more going forward?

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

No to the last part of that question on expecting more bad debt going forward. This was a singular customer issue where we essentially resolved an ongoing dispute with the customer in Specialty Minerals. And so the overall impact of that, if you look at the bridge I provided on operating income, it was an Other bar that was about $6.6 million. About half of that is related to the mark-to-market, that sits in corporate, and the other half was the provision for bad debt.

Operator

Our next question will come from David Silver with CL King.

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

Okay. So I had a few questions. I think the first question, I was hoping to get a little clarity on, would be related to your PCC business. And I -- personally, I kind of consider 2020 a major kind of transition year for that foundational business of yours. You have a number of satellite plants due to start-up, and I'm also kind of wondering if there are any further shutdowns that are -- that have been announced but maybe not executed. So would I be correct, if I was to do a waterfall or a cascade or whatever, that maybe this business will finally turn clearly positive year-over-year in the second half of this year. Is that your expectation? Like, what are the kind of the moving parts that we should keep in mind as 2020 progresses?

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

Sure. Thanks, David. So let me start off. I highlighted in my comments, what we're building this year and so yes, most of that will come on in the second half. And so I do think that, that turning point is next year -- is in the second half of this year. We also have a number of other projects and new technologies that are also, again, packaging, our new filler technologies, but not just the base filler that we're building. And so we have a number of different fronts that we're working on growth, executing on last year. But regarding the timing in that waterfall that you'd mentioned, let me turn it over to DJ, and he can give you more specifics on when these are coming online.

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

Yes. Thanks for the question. There's a couple of dimensions I want to put on it. Let's first, just make sure you're clear on what's coming because you'd asked about the other announcements or things. And last year, International Paper had announced that they'll be taking down a machine in the Riverdale mill, which is in North America. The net effect of that is some 50,000 tons that will be lost in that at -- that location. Now, they are putting in a packaging line, and we're going to be participating in that conversion of the packaging. So they'll be making white top liner. So it's 50,000 tons that are coming out, and then some time replacing that will be probably -- we'll probably get 40% to 50% of that back. And it will be a much more, we believe, sustainable revenue stream at that location. So that's part of our shift to new technologies there. The other volume that is coming online. Doug had mentioned that we started an expansion in India. That expansion, plus a new satellite, will be coming online at the end of the first quarter. That's about 40,000 to 45,000 tons. In the second quarter, we'll be starting up the -- another opportunity in India, which is 50,000 tons. So we'll start recognizing the profit impact in that, probably in the third quarter. We announced a packaging satellite in Europe. The satellite won't be finished, that expansion won't be finished until 2021. But we've been able to do some debottlenecking on that, and you'll start seeing increased volumes come online for that in the fourth quarter as well. So long-winded way of saying that in that second half, especially towards the end of that half, there's substantial volume coming on.

There is a very big piece of volume that is coming on with -- in China, with Chenming, is the name of the customer. That's 150,000 metric tons that we'd expect to start, bringing online late in the third quarter, early in the fourth, but that will be a slow ramp up, given the magnitude of the opportunity.

On top of that, we've discussed a pretty robust pipeline in the past.

And let me just affirm that, that continues to move along pretty well. In the past, I've expressed some 20 opportunities, that still exists, 20 opportunities. And it's across 3 sort of technology lanes, traditional PCC that goes into printing and writing grades, especially in Asia, and some packaging grades that are in the more developed regions. On top of that, we've got -- Doug was highlighting the environmental products. We've got some further pursuits and pretty advanced discussions on environmental products, products that we call Envirofil and NewYield. And then we've got some new things that we're trialing out in packaging as well. So that's the Paper component.

And then we're very excited about the expansions that are coming online for Specialty PCC as well, which should show up in that segment as a good element to growth in 2020 as well.

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

So David, let me just kind of summarize that. What we're bringing on in the first half of this year will largely fill the hole that was created last year from shutdowns. In the second half of this year, there's another 200,000 tons coming online, that'll ramp up through the second half and into 2021, that's going to be that growth. And then in addition to that, DJ mentioned the number of different technologies that we've built with the Envirofil, that's all incremental, smaller volumes, but also incremental to that whole story. Does that help?

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

Yes. That is great color. And I -- thanks in particular, mentioning the transition at that IP mill, wasn't aware of that.

I wanted to maybe circle around to the M&A question, maybe from a different angle. So I think in one -- in the Refractories area, one of your major global competitors announced an acquisition of a U.S. competitor, I think, yesterday or the day before. And to my eyes, it was discussed in kind of strategic terms than what they would -- how they would leverage that investment. So just in general, I mean, were you aware -- were you bidding on that? Or was the Refractories area is something of interest to you? And how do you think the entry of a very large global competitor with the strategic focus on that area might tilt the competitive balance in the U.S. market?

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

Sure. So let me say yes, we're aware of it and of the company. I'm going to let Brett Argirakis, who runs our Refractories business, talk more about how that fits or doesn't really fit with what we do. But we were aware of it. We understand the competitor. But I think that's geared toward a different strategy than the ones we are in terms of furnace relines and maintenance.

So Brett, give a little color on what you know.

Brett Argirakis - *Minteq International Inc. - MD*

Sure, sure. Thanks, David. Yes, as Doug said, we were aware of the acquisition. The buying company is already positioned as a global company, and they're well positioned. The purchased company is a smaller Midwest-based company. And they serve some of the markets that we do. In fact, they serve the markets that are a bit smaller. They're not currently a major competitor of ours. Their focus is more on the alumina based products, castables, rammables, mortars and shapes. And that's a very small part of our business. In some cases, it's not even any part of our business at all. But our focus is more on the magnesia-based refractories or basic refractories, as we call them, and we focus more on the furnace repairs in the bigger mills in both electric furnaces and integrated. So again, may be a good fit for the buying company. But yes, it's something that isn't a big impact to our business.

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

Yes. So it's something we were aware of, David, but not something that necessarily fits our strategy and where we are in these mills in BOF and the EAF furnace.

Did that help, David?

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

Let me just ask -- is there time for 1 or 2 more or should I get back in queue.

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

Sure, ask another question. Go ahead.

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

Okay. Great. So I have one for Matt, and it would kind of be a variation on the question that was asked earlier. But when you do look at the interest, the rate structure here, I mean, this is -- I don't know, to me, I never expected to see rates quite this low again. So I understand if you just maintain the current capital structure, we can kind of suss out the trends in interest expense, and it will go down a little bit. But from your perspective, are there any opportunities here? In other words, would you refinance either to meaningfully lower your overall interest -- average interest rate or maybe change the term structure of what you have out there. But does the current interest rate environment present an unusually good or a structural opportunity for you?

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

So we are benefiting, like we said. We have a good position in floating rate debt that's allowed us to take that actual rate difference down as markets have moved down. I think as you look longer-term for us, we have 2 real big components in our debt structure. We have a note that is due in 2021, and then one that's due in 2024. We've been paying down the 2021 position. It's currently sitting at a position of about $100 million to $200 million. And so the way that we've looked at it in the year ahead, in the cash flow generation that we're expecting for 2020. Again, we're expecting that $150 million level in play with a CapEx between $70 million and $80 million. That gives us that flexibility. And that's why Doug and I talk about the balanced approach to capital deployment. Yes, you're seeing share repurchases go up as we near the 2x target level on net leverage, but also maintaining flexibility in that capital structure and giving some additional cash flow to debt paydown and taking care of that 2021 will be an opportunity for us.

Looking longer term, the maturities themselves don't present a significant risk to us. But as you said, with rates where they are, it presents an opportunity potentially to term out at a relatively attractive rate and maybe get some of that fixed. And so we're looking at all of those options. But given the cash flow we have, the flexibility we have with that cash flow and the terms that we have in our 2 major tranches. Right now, there's not a significant amount of urgency. And let me just also add, given our average rate of debt is about 4%. That's very attractive as well.

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

Okay. And if I could just squeeze in one last one. This would be maybe more of a philosophical question for Doug. But you've been in charge for a number of years. And over that time -- by the way, my question is about organic growth. But over that time, you've done a tremendous amount of work internally and put out an array of new products and have repositioned your assets geographically significantly. But the top line still is hovering around that $1.8 billion area, and it remains a tricky macro environment. So from your position, do you think that your company is now positioned to kind of drive top line growth, organic growth going forward on an annual basis, even if the macro environment, in particular, autos and steel and paper, the macro demand levels don't change so much. In other words, how much of a cyclical recovery is required for your top line to start to show meaningful growth relative to internally developed new products and applications?

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

Well, let me start by saying, as an industrial minerals company, we are going to supply a variety of industrial minerals segment or industrial segments that have some cyclicality to them. So we are going to see the ups and downs of automotive and construction, and that's going to be a piece of our company -- and steel. It's been a -- I guess, what I can tell you is what I've been working on and what this team has been working on is to start to put ourselves in positions, as you had said, to develop products, to put ourselves in geographies that avail ourselves to a much more sustainable and long-term growth. So pools of opportunity that we have the capability to serve and also that have less cyclical or noncyclical, but also more steady growth rates. And that's why I talk about today, areas, big pools of opportunities for things that we do, like in Metalcasting, but in big pools in China and India. Basically applying what we do -- and same with PCC, applying what we do more quickly, but applying what we do today in North America to other areas.

But there are things like -- and I talk a lot about Household and Personal Care & Specialty. These are products that address more consumer-related markets, we call them. And they are also larger pools of opportunity for us where we have unique capabilities and vertically integrated to supply, but they also have more steady growth rates associated with them.

So there's more work to do, no doubt, in terms of making sure that our technologies are not just fillers in Paper, but they apply to a broader range of packaging and environmental issues that these paper makers face, moving ourselves into markets such as environmental, consumer product-oriented markets that are mineral-based, but that have more stable growth rates and larger opportunities. But then also focusing on doing what we do really well around the world in our large positions, like Metalcasting, and applying them to other big pools of profit. So yes, I think there's more to do, but that is the strategy that we've been under in terms of moving ourselves that way. You're going to see, over time, as you saw this past year, that cycle in our mature businesses take away. But I will tell you that what we've delivered in this past year on these new products and what will continue to deliver, we feel going into 2020, is probably $50 million to $60 million of kind of base run rate growth just from what we have in hand. So with the satellites we have in hand, the new technologies and our run rate that we've developed over the past few years and the products I mentioned, is a 2% to 3% growth rate next year, if nothing else happens. Should markets recover and we come out of that cycle, that compounds. So I've always stated that this business on a -- I know it's never natural. But on a regular run rate, it should grow at about 5 -- mid-single digits percent. And as we continue with our operational excellence initiatives and drive margin improvement, I think that creates a pretty healthy story for earnings growth over the next several quarters.

Does that help, David?

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

Yes. No, that was great color. I appreciate that.

Operator

We'll now take our next question -- it's is a follow-up from Silke Kueck with JP Morgan.

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

(inaudible) restructuring sale...

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

Silke, it's hard to hear you.

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

Is this better? Sorry about that.

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

Yes, yes, yes.

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

Okay. Sorry about that. In terms of your restructuring savings, my memory is that you said you would be at the $12 million run rate in the first quarter. And so maybe your actually restructuring savings were, I don't know, $4 million to $5 million in '19 and maybe go to $12 million in 2020. Do you think the majority of that will flow down to the bottom line? Or what are the offsets to that? And I was also wondering whether you can just remind me that -- where you think the savings might show up on the segment basis?

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

The second -- sorry, can you just repeat the last part of that question, Silke?

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

Oh, I was just wondering whether you could remind me, which segment should benefit most from the restructuring savings?

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

Got it. Absolutely. So I think your math is right, actually. When you look at it, you're seeing in the 2019 time frame, capture of about $5 million to $6 million, which means incrementally, you're going to benefit from the restructuring savings about that amount in 2020. When you look at what has been some of the offsets, though, in terms of the overall bridge process. We -- in this quarter, you saw some of those onetime items, right, which was a relatively big impact. And so as we look forward, not looking to really have a determination on whether we have those onetime items, and not again, because they're really driven by some outside factors. But if those don't recur, that should be dropping to the bottom line. And the biggest piece of where you are seeing the savings come from is in the Performance Materials business. But really, it's been across the portfolio, where we've been taking opportunities to gain efficiencies and to pull some savings out. And I think we've told you, a large portion of that has been on the people side. So as you look at 2020, we'll be impacting the bottom line, offset here in the fourth quarter by some of those one-timers and should be coming across the portfolio as we move forward.

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

Yes. Silke, we're confident. We're looking very hard, I mentioned my comments on cost control. Given the market environment we have, all of our employees are focused on continuous improvements, productivity improvements, discretionary spending in this kind of environment, we're very focused on costs. You will see incremental $5 million to $7 million of that restructuring coming through on a year-over-year basis in 2020, and we're going to continue to look at ways to save money as we continue through this kind of market environment. So that's part of our DNA, and we're going to continue with that in 2020.

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

By the way, Silke -- sorry, I think part of your question was, not only what segment, but where is it, right? And I think we've told you previously that a big piece of this would take in, in the cost of goods sold. So in the operations and plan administration, so not necessarily in SG&A.

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*

Thanks, Anna. Thanks, everyone, for joining us today. We look forward to speaking with you again 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.