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MTX.N - Q3 2025 Minerals Technologies Inc Earnings Call

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PRESENTATION

Operator

Good morning and welcome to the Minerals Technologies third-quarter 2025 earnings conference call. (Operator Instructions)

Please note this event is being recorded. I would now like to turn the conference over to Lydia Kopylova, Head of InvestorRelations. Please go ahead.

Lydia Kopylova - *Minerals Technologies Inc - Vice President Investor Relations*

Thank you, Gary. Good morning, everyone, and welcome to our third-quarter of 2025 earnings conference call. Today's call will be led by Chairman and Chief Executive Officer, Doug Dietrich; and Chief Financial Officer Erik Aldag. Following Doug and Erik's prepared remarks will open it up to questions.

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

We also know that some of our comments today refer to non-GAAP financial measures. A reconciliation to get financial measures can be found in our earnings release in an appendix of this presentation, which I posted on our website. Now turn it over to Doug. Doug ?

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

Thanks, Lydia. Good morning, everyone, and thanks for joining today. I'll start today's call with a review of our third-quarter, followed by an update on what we're seeing across our key end markets. I figured it'd be helpful to provide some perspective on how our markets have changed over the past year and how they continue to move within the global economic context.

I then want to highlight some of the recent investments we've made to support the long-term growth we are seeing across several of our product lines. Erik will then take you through the detailed financials and share our outlook for the fourth-quarter, and then we'll open it up to questions.

Let me start with our Q3 numbers. We had strong execution across our business delivering solid financial results despite facing mixed market conditions, which I'll get into a bit later. Our sales increased 1% both sequentially and over the last year to $532 million. Operating income came in at $78 million and earnings per share were $1.55, a company record for a third-quarter.

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Cash flow is strong and was up 24% year-over-year. We continue to strengthen our balance sheet, providing us with a financial foundation from which we can evaluate different investments and opportunities to drive growth. We also returned $20 million to our shareholders in the quarter, and last week announced a 9% increase to our regular quarterly dividend, making this the third consecutive year that MTI has had a dividend increase.

We recognize our sales growth has been sluggish this year due largely to the softer market conditions we've been experiencing in residential and commercial construction, heavy truck and agricultural equipment markets, and in Europe in general.

The softer market conditions have largely offset the growth we are seeing in many of our other product lines, where we are executing on opportunities in markets that are structurally expanding and where we have built a distinct competitive advantage. I'll highlight some of these specific investments and opportunities in a moment and outline how they will set us up for meaningful expansion across several product lines, both in the near and long-term.

First, let me provide an update on our current market conditions. As a general overview after the first-quarter, most of our end markets have been and remain relatively stable. A few continue to be weaker than last year, and we expect them to remain so through the fourth-quarter.

Let's start with our Household and Personal Care product line. Pet litter market conditions in North America and Europe have remained stable and at similar levels compared to last year. We continue to see discounting activities from branded producers in North America. And in response, we've worked with our customers to make promotional adjustments to the products we supply them.

These activities have had a positive impact on our sales volumes and profits. The Pet litter market in Asia and more specifically China continues to show strong growth. Our volumes are gaining momentum there, and we are making investments to support this long-term growth.

In our other Consumer and Specialties markets, demand for our natural oil purification and animal health products has been strong, with our sales this year up 18% and 12% respectively, and we see this trend continuing. InSpecialty Additives, we're facing mixed market conditions in paper and packaging. Asia continues to be a market with good opportunities for us to expand our base business and introduce new technologies.

However, this year North America demand has been weaker. Elsewhere in this product line, demand in the residential construction market has been relatively flat all year. We did see some signs of further softening late in the third-quarter, which may make it a slower end of the year.

For High-Temperature Technologies product line, conditions have remained relatively stable for steel production in the US with utilization rates remaining in the mid to upper 70% range. It's not the highest level we've seen over the past two years, but healthy enough for stable volumes. Europe continues to be more of a challenge with steel utilization rates dropping below 60% this year.

The US foundry market has also remained relatively steady for most of the year, buoyed by stable auto production. Two areas that have been soft for this business all year are the agricultural equipment market and heavy truck markets. When these markets begin to rebound, they will provide good upside for foundry demand.

The China foundry market has remained relatively strong this year despite the impact of tariffs and ongoing trade disputes. In fact, we've seen strong volumes across our metal casting business there, with year-to-date volumes up over 10% from last year.

In Environmental and Infrastructure, commercial construction remains slow compared to historical levels, and these similar conditions exist for the environmental lining and remediation markets. We expect to see some improvement in project activity as interest rates ease and projects are financed. We are already specified on several large commercial and environmental projects and expect an inflection in this product line sales when these projects commence. Elsewhere, we've seen strong pull for our infrastructure drilling products this year. Increased geothermal drilling and fiber optic cable installation has been driving the increased demand.

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As you can see, we continue to experience mixed conditions across our markets. Despite the impact these conditions are having on our top-line this year, our team has navigated these conditions to maintain margins, profits, and cash flow. At the same time, we've not deviated from our focus on investments and technologies and markets where we see the biggest growth opportunities, which I'll go into more detail in the next slide.

We've spoken about our strategy to build positions in higher growth markets. Markets with economic or macro trends where we can deploy new technologies or expand our existing technologies to drive higher levels of growth and balance the more cyclical portions of our company.

We've been executing on these opportunities, expanding our pet care business, investing in technologies serving a variety of consumer-driven and markets, and deploying new technologies in some of our more traditional businesses like refractories and paper and packaging to expand our value proposition globally.

As you've likely seen, we announced a few recent investments made in support of these strategies, and I want to highlight a few of them to remind you of the opportunity we continue to see.

Let's start with a few opportunities in our consumer and specialty segment. In our pet care business, we remain confident in the long-term growth trends of this market and in the private label portion in particular. We expect the North America Pet litter market to continue to grow by 3% to 4% and the Asian market to grow by 6% to 8% per year over the long-term.

Over the past five years, our Pet litter business has grown organically at a 9% compound rate, adjusted for the two acquisitions we've made over this period. To support this continued growth, we recently made investments at our plants in Dyersburg, Tennessee, Brantford, Ontario, and Chaoyang City in China.

We've broadened these plants manufacturing capabilities to increase throughput, lower costs, and offer greater flex packaging flexibility to meet customer demands. Dyersburg and Brantford are both strategically located and well connected to large portions of the North American market. These recent investments to expand capacity and upgrade capability at these sites enabled us to secure some significant contracts beginning in 2026.

In China, we've outgrown our existing facility and are bringing online a completely new one to meet the demand that we are seeing from this rapidly growing Pet litter market. The upgrades across these three plants are expected to be completed by the end of 2025 and will fortify our position as the largest high-quality private label cat litter supplier to customers around the world.

In our natural oil purification product line, we announced an investment at our plant in Turkey to support the significant growth we are seeing in this market. Since 2018, our bleaching earth business has grown at a compound rate of 20%, and this is our third expansion since we opened the facility to support this level of revenue growth. Our facility in Turkey both mines the raw materials and manufactures absorbances and bleaching earth products sold under the brand name Rafinol, which are used for the purification of edible oils and renewable fuels, including biodiesel, renewable diesel, and sustainable aviation fuel.

The market opportunity here is significant. The global natural oil purification market size was $1.1 billion in 2024. The renewable fuels portion accounts for over 12% of this market and is the fastest growing segment. Demand for sustainable aviation fuel in particular is growing rapidly and is being bolstered by supportive regulatory changes in the US and Europe.

Our Rafinol product line is differentiated in the market with its high performing adsorptive properties that succeed in the most challenging applications like sustainable aviation fuel. Also worth mentioning, we've made other investments to meet the increased demand for our natural animal health products and also for our higher tech fabric solutions for dry laundry detergent.

In our paper and packaging business, we continue to secure new contracts in Asia, and in the next six months, we expect to commission four new satellites in the region. There continues to be a significant unpenetrated addressable market in Asia for our technologies. We've been driving the deployment of engineered calcium carbonate and the introduction of renewable technologies to the paper and white packaging industry as producers expand and look to upgrade their product quality.

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Since 2022, our volumes there have grown by 20%, including the doubling of our sales to the white packaging industry. We've always been the leader in the region and are well positioned to continue to grow by delivering the best calcium carbonate solutions, including innovative technologies like NewYield.

On the Engineered Solutions Side, our Minscan installations and our refractory business continue to go strong. We just signed our 18th Minscan contract and we'll be installing six new units this coming year. There's a large addressable market with over 130 electric arc furnaces in the US and Europe capable of using a Minscan, providing us with a significant runway to grow over the next several years.

In summary, we expect these investments to generate $100 million in incremental revenue over the next 12 to 18 months as they ramp up. And these are just a few examples of the investments that we've recently made to support the growth opportunities for which we have strategically positioned ourselves.

I want to be clear that these are just a subset of the initiatives that we are pursuing. Other areas like PFAS remediation, natural skin care additives, geothermal drilling products, and further penetration of our Greensand Bond technologies into Asia are all progressing nicely as well.

Together, they provide several significant pathways for us to drive sales higher going forward, and when our weaker markets begin to rebound, we see that providing additional upside to our top-line growth. With that, let's have Erik take you through more detail on our third-quarter financials and our fourth-quarter outlook. Erik ?

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

Thanks, Doug, and good morning everyone. I'll start by providing an overview of our third-quarter results, followed by a review of the performance of our segments, and I'll wrap up with our outlook for the fourth-quarter.

Following my remarks, I'll turn the call over for questions. Now let's review our third-quarter results. Overall, our team delivered another solid performance while continuing to navigate mixed market conditions. Third-quarter sales were $532 million up 1% sequentially and 1% higher than the prior year. You can see in the sequential sales bridge on the top right that sales increased in three of our four product lines.

In Consumer and Specialties, our Household and Personal Care product line was up 2% sequentially driven by increases in cat litter and other consumer specialties. In Specialty Additives, sales were 2% lower sequentially as we moved into the seasonally lower period for residential construction applications.

In Engineered Solutions, sales in High Temperature Technologies increased slightly from the second-quarter as higher sales to steel customers were partly offset by lower sales to foundry customers in North America. And we saw a 5% sequential increase in our Environmental and Infrastructure product line driven by increased demand for offshore services as well as infrastructure drilling products .

To summarize, conditions played out mostly as we anticipated, and I'll take you through more of the details when I cover the segments in a moment. Operating income for the quarter was $78 million down 1% sequentially and versus the prior year and operating margin was 14.7% of sales.

In the operating income bridge on the bottom right of the slide, you can see that unfavorable volume and mix, primarily in the Consumer and Specialty segment impacted income directly by $1 million. And lower volume also contributed to temporarily higher operating costs at a few of our facilities in the quarter.

Higher pricing of $1 million offset inflationary input costs, including higher tariff costs in the third-quarter. EBITDA was $100 million up 1% from prior quarter and prior year, and EBITDA margin was 18.8% of sales. I'd like to point out that versus the third-quarter last year we've done well to offset $10 million of higher costs including tariff costs, raw material increases, energy, and temporary increases like higher logistics costs associated with our US cat litter plant upgrade.

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We offset these cost increases with a combination of productivity improvements, supply chain actions, price increases, and our cost savings program. And I would also highlight that as we move through the temporary cost increases, we should see marginal improvement from these actions going forward.

Earnings per share, excluding special items was $1.55. The same level as the second-quarter and up 3% from last year representing a record third-quarter for the company. We recorded special items of $7.5 million in the quarter related to litigation expenses. Now let's turn to a review of our segments beginning with Consumer and Specialties.

Third-quarter sales in the Consumer and Dpecialty segment were $277 million flat sequentially and down 1% from last year. In Household and Personal Care, sales improved by 2% from prior quarter to $130 million driven by improving volumes in our cat litter business and continued progress on growth initiatives in consumer specialty applications most notably in edible oil and renewable fuel purification, where sales grew 18% versus last year.

In Specialty Additives, sales were $148 million 2% lower sequentially. Global paper and packaging volumes were flat compared with the second-quarter, as volume increases in Asia offset lower volumes in North America. Meanwhile, demand for residential construction products was incrementally softer in the quarter, which pulled volumes lower for the product line.

Despite the volume, pressure, in Specialty Additives, the segment continued to build on the operating performance gains we saw in the second-quarter, delivering a modest improvement to operating margins sequentially. Operating income for the quarter was $37 million representing 13.5% of sales.

Looking ahead to the fourth-quarter. In Household and Personal Care, we expect continued sequential growth in cat litter, edible oil, and renewable fuel purification. And in Specialty Additives, we're expecting lower sales sequentially, primarily driven by typical seasonality for residential construction products.

We do expect softer than normal residential construction volumes in the fourth-quarter, as some customers are indicating they have sufficient inventory levels heading into the winter months and they are planning to adjust production schedules accordingly. Overall, for the segments, we expect sales to be flat or slightly lower sequentially.

Now let's turn to the Engineered Solutions segment. Third-quarter sales in the Engineered Solutions segment increased by 2% sequentially and grew 4% from prior year to $255 million. In the High Temperature Technologies product line, sales of $179 million were similar to prior quarter and up 2% year-over-year. Sales to steel customers in North America continued strong, more than offsetting continued weakness in the Europe and Middle East steel markets.

Sales to foundry customers were mixed, with North America volumes impacted by continued softness in the heavy truck and agricultural equipment markets, in addition to the typical third-quarter customer maintenance outages. On the positive side, we saw continued strong demand across Asia with foundry volumes up 5% sequentially and up 17% versus prior year.

In Environmental and Infrastructure, sales increased by 5% sequentially and were up 9% from prior year, driven by higher demand for offshore services and strong pull for infrastructure drilling products. The segment did a nice job of mitigating tariff impacts and turned in another strong operating performance. Operating income was $45 million and operating margin improved by 20 basis points sequentially to 17.6% of sales, a record level for the segment.

Looking ahead to the fourth-quarter. We expect Environmental and Infrastructure sales to be 10% to 15% lower sequentially due to typical seasonality for large project activity. And in High Temperature Technologies, we expect sales to be slightly lower sequentially as several of our foundry customers in North America have communicated longer than normal outages toward the end of the year.

This is due to the continued softness they are seeing in the agricultural equipment and heavy truck markets and in anticipation of some acute automotive production disruption. While these plans could change, our current outlook assumes a reduced number of foundry working days in

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December, along with the temporary margin impact of the associated lower productivity at our plant site. Overall, we expect segment sales to be lower by around 5% sequentially.

Now let me turn to a summary of our balance sheet and cash flow highlights. We delivered another solid cash flow performance in the third-quarter with free cash flow of $44 million. Capital expenditures totaled $27 million in the third-quarter, and we remain on pace for approximately $100 million of capital investments for the full year. Some of the key investments that Doug outlined earlier will be commissioned during the fourth-quarter with revenue ramping up in the beginning of 2026 and we expect that sort of cadence to continue into next year with additional startups expected throughout the first half.

In total, we've returned $20 million to shareholders in the third-quarter through share repurchases and dividends in keeping with our stated balanced approach to capital deployment. Our balance sheet remains strong, and our net leverage ratio remains at 1.7 times EBITDA, below our target of 2 times EBITDA.

Now I'll summarize our outlook for the fourth-quarter. Overall, we expect fourth-quarter sales to be approximately 2% to 4% lower sequentially, primarily driven by seasonal patterns in a few of our end markets. Operating income for the quarter is expected to be between $65 million and $70 million with earnings per share between $1.20 and $1.30. Our sales range of $510 million to $525 million considers a number of factors.

On the positive side, we expect continued traction with our growth initiatives in Household and Personal Care. The cat litter business is gaining sales momentum, and the fourth-quarter is typically a strong one for cat litter. In addition, we expect continued growth in edible oil and renewable fuel purification.

As I noted earlier, some of our customers serving the residential construction and foundry markets in the US are signaling the potential for slower order patterns and extended outages around the holidays which would impact volumes of some relatively high incremental margin products in both our specialty additives and high temperature technologies product lines. We are also watching for potential volatility in order patterns due to uncertainty around tariff policies.

As we've communicated, we don't have a significant direct exposure to tariffs. However, we're mindful of potential near-term impacts on our customers. Our guidance takes all of these factors into account, and where we land in the range depends on how they play out.

In summary, we have positive momentum across a number of product lines as we head into the fourth-quarter and we are focused on delivering the growth initiatives that will carry this momentum into next year.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Daniel Moore, CJS Securities.

Daniel Moore - *CJS Securities Inc - Analyst*

Doug, Erik, good morning. I appreciate the color and thanks for taking the questions.

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I'll start with pet care. Looks like you saw an uptick in cat litter volumes in Q3. How should we think about -- you described the market dynamics. How do we think about those and the potential to get your pet care business back to that kind of longer-term mid-single-digit plus growth rate, cadence, not necessarily 2026 guide, but over the next 12 to 24 months.

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

Yeah, I appreciate that. Look, Dan, as I mentioned, let me start. I'll hand it over to DJ for some details. There's no doubt it's been a challenging pet care market for us, but you know this is one year we – I'll try to make some comments to highlight - if you take a longer-term view on the market and our performance in it, we've grown organically. I mean we've pieced the business together through some acquisitions, but even adjusting for some of those over the past two years, the business has grown by 9% compound.

This year a little bit flatter we've seen some dynamics in the market that haven't been seen before in terms of some discounting. We've made those adjustments. We have to work with our customers to make those adjustments. We've done that and we've seen the volume improve as a result, and I think that carries through the fourth-quarter and into next year.

The biggest thing is, I think, this is a good business for us. We're vertically integrated, we're global, obviously the largest with the technology, and we're confident in that long-term growth rate of it that I mentioned, 3% to 4% in North America, 6% to 8% in Asia.

And we're making investments to be able to support the growth that we see and what's going to be coming forward and in short-term next year. I'll let DJ talk about that, but these are good investments to make. This business is going to revert to that growth rate. I never said it's going to be a straight line, but we will have that business growing next year, and I'll pass over to DJ. Let's give you some details on what we're securing with some of these upgrades.

D.J. Monagle - *Minerals Technologies Inc - Group President - Consumer & Specialties*

Yeah, thanks, Dan. So just let me kind of close out some of the market dynamics and then just give you a sense of the return back to that upward single-digit growth rate. On the North American market, what we did see early on and we had mentioned in previous calls, these battles among the brands, so and is the only way I would describe it, significant discounting that went on the brands that caused some pretty big market share shifts within the brands, but it also had an effect on private label, most pronounced at some specialty pet stores and grocery stores.

We were able to adjust with our private label partners and come up with promotional schemes that still keep their private label relevant that includes price discounts, changes in packaging, changes on shelf allocation, and so we feel that part of the market has stabilized pretty well. Doug had mentioned some pretty significant investments that reposition us for some future growth and coming pretty quickly. Doug had mentioned some contracts. So what you'll be seeing is some $30 million of growth that'll be going into next year as those contracts come online. That's towards the end of the first-quarter.

So we feel really good about that. There's some further growth that's capable or enabled by these investments in North America, especially with the product flexibility and packaging flexibility. The other thing Doug mentioned that we're very excited about is the reinvestment or the establishment of a new facility in Asia. We outgrew our old facility. We've got a lot of pull from a wide range in the market on how to take advantage of that growing region.

And the difference for Asia with us is that it's a much broader and more profound mix of branded customers, global brands that want to grow in Asia and we're well positioned to co-manufacture and co-pack for them, but also supporting the regional private labels as well as an emerging e-commerce business there. So this investment does that for us, so that would be additional growth. So I think the market is stabilized. We've made some adjustments with our branded partners and we're very well positioned to get that back on track as projected in 2026.

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Daniel Moore - *CJS Securities Inc - Analyst*

Really helpful and just pulling on that string that with all of those investments you're making. How do we think about just the overall increasing capacity as we exit '25 ?

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

Well, some of them in North America, so the overall increasing capacity, so we're looking at that 68%. I'll start with China. We've made this investment. It's a new facility. We've put in capacity to probably sustain it for the next three, four years. It's a big enough facility that we can add additional packaging capacity to meet that growth over a longer period of time. So that one we're starting with modular kind of growth to meet the incremental investments over the next 10 years.

In North America, the investments we've made in Canada and here in the US and these two facilities we talked about were a lot of quality upgrades, material handling upgrades, again these are two acquired facilities, so these were planned a long time ago. We needed to find the right time to be able to shift production around, keeping our customers supplied while we made these changes, that's a lot of the cost increase you've seen and some of the margin, a bit of the margin deterioration you saw this year.

But that's we're through that, and we've made upgrades to material handling, quality, packaging flexibility, throughput, all of which have reduced cost as well and should accrue to profitability going forward. So it's a number of different things, but we've got plenty of capacity in these facilities to grow at those rates for I'd say the next 5 to 10 years. But again, we can also have space in them to add modular packaging capacity if we need to keep up with the market. So I think we're in good position, Dan.

These investments, they're not significant huge investments for us, but they did put us in a position to be able to secure higher quality contracts, and as DJ mentioned, we see about $30 million of that coming in starting in the second-quarter next year.

Daniel Moore - *CJS Securities Inc - Analyst*

Very helpful. Switching gears, Environmental and Infrastructure, little pockets of strength there at least this quarter. I know maybe a more difficult, seasonally slower period that we're going into, but just talk about momentum as we kind of think about start to think about turning the page to 2026.

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

We saw some momentum actually this quarter was in our offshore water treatment business, which has been doing really well. I guess I'll start with just construction and environmental remediation relatively flat. We've seen some projects come. I mentioned we're specified on a number of projects. We thought that business would probably turn this year. It still hasn't. cCommercial construction, , large building is still relatively flat.

I think when it's interest rate sensitive, I do think when interest rates start to move down, we will see more of that on the shelf activity come into play, and that'll be positive for us. But this quarter was a lot of water filtration stemming from our capability around PFAS remediation, our ability to take complex things out of water. And that was some new projects we've secured offshore and that really came through in the quarter and we think that's sustainable through the fourth- and into next year.

Daniel Moore - *CJS Securities Inc - Analyst*

Very helpful. Just in terms of the Q4 guide, revenue down 3% sequentially at midpoint, Op income down more like, low teenss, so a little bit of a higher decremental margin. I appreciate the color on foundries which is high margin. Are there other, corporate incentive comp, any other expenses which you might call out in Q4 that could pinch margins but more than might be typical given the volume decline ?

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

Yeah, thanks, Dan. This is Erik. No, nothing unusual from a corporate expense standpoint in the fourth-quarter. The main drivers are really the ones that I called out in the prepared remarks in terms of the mix. I mean, the markets that are down seasonally for us Q3 to Q4, and then the Foundry and some of the residential construction products that we have, those are higher incremental margin products for us and so we do have a mixed impact that goes against us in terms of the decremental margins that we're seeing Q3 to Q4.

The only other thing I would highlight is, we had some strong margins in the third-quarter in the Engineered Solution segments. That was continued strong performance from the teams offsetting tariffs, continued strong productivity, variable conversion cost control. We did have a couple of the equipment sales in the High Temperature Technologies product line that helped margins in the third-quarter, and we don't have any of those equipment sales forecasted for the fourth-quarter.

But as Doug mentioned, we've got about six to come next year in terms of those Minscan installations.

Daniel Moore - *CJS Securities Inc - Analyst*

That is helpful. I'll be back in queue with any follow-ups. Thank you.

Operator

Mike Harrison, Seaport Research Partners.

Michael J Harrison - *Seaport Research Partners - Analyst*

Hi, good morning. Was -- I was hoping we could talk a little bit about the margin performance in Consumer and Specialties. I think it was relatively close to where you were expecting, but you are kind of tracking like 150 to 200 basis points lower than you were last year and I was just hoping that we could maybe break down or help kind of bridge some of those key factors that have driven that weaker margin performance.

Maybe just talk about how you see the discounting or promotional activity in pet care, maybe mix, maybe the volume declines and Specialty Additives and on that resi high margin stuff, as well as the temporary cost from pet care expansions. Like can you help us understand what's going on there and then maybe just directionally help us understand what that -- as we start to think about Consumer and Specialty margin into next year, how some of those items should trend.

Yeah, thanks.

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

Yeah thanks, Mike. This is Erik. So I think you hit on a lot of the key themes there and actually for the third-quarter, the margins were right where we expected them to be for the segment. You -- the largest driver there are some of these temporary cost impacts that we have. I mean, we have a significant upgrade going on at one of our US cat litter plants, and we've had to move around production across our footprint in North America and there's been an increase in logistics costs as a result.

So that's the primary driver of the margin pressure I'd say from Q2 to Q3 in Q2 as well as in Q3. That facility is going to be ramping up here in the fourth-quarter and so we're moving through that more temporary impact. You mentioned discounting, we're not seeing a negative margin impact because we've been helping our retail partners with discounting and the reason for that is we've had some incremental, pricing discounts on our products, but it's helped with our volumes.

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And so as we get more volumes running through these plants, there's significant fixed cost leverage benefits that we get. And so we haven't seen a margin degradation from any of the discounting that we've been participating with our retail partners on.

As far as where this is going, the segment is set up well for 15%. We were very close to 15% last year and we're going to get there again as we move through some of these more temporary issues, but that's our target. The segment should be delivering 15% operating margins.

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

Mike, the only thing I'll add, I'll put that, same as echo what Erik just said. We'll get back to and probably exceed last year's margins in the segment, and that's going to come from a couple of things. A, the ending of the temporary logistics expense, number one, and some of the other ancillary expenses that came across as we made these investments in these facilities.

Two, we have seen some lower volumes due to this discounting which we've adjusted, and as Erik just mentioned, those volumes are coming back. That is helping profitability.

And three, the additional volume that we're going to be putting through these plants next year starting in the second-quarter is going to be very accretive to those margins. And so I think as Erik said, we're set up to get back to last year's margins next year and probably exceed them with some of this additional volume.

Michael J Harrison - *Seaport Research Partners - Analyst*

All right, that's very helpful. And then maybe, just on the investments that you're making in Turkey with the bleaching earth for renewable fuel. Can you help us understand what the dollar amount of that investment looks like? How much is your capacity expanding and I guess should we think about the investments as mostly mine expansion, or is there something that you're doing on the I guess refining or processing side that's helping to improve your capabilities as well.

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

Sure. I want to be careful about giving some information out there and how much capacity we're putting into the market, so I won't give you in tons. I'll give you a percentage. Again, we built the facility I think eight years ago. We built it with enough room to expand it. At the time we wanted, we were looking more at the edible oil market, which grows at about 3%, 4% kind of GDP business, and we had a great product for that application.

Since that time, we saw the development of the market for, renewable fuels. And we started supplying that market probably four years ago, five years ago, and then more recently, the development of sustainable aviation fuel through regulation changes in Europe in particular and now the US has really started to pull that product much harder. And so this expansion, $9 million to $10 million type expansion, we've expanded the plant by about 30% in terms of capacity to be able to meet the growing demand. Like I said, we've been growing at about 20% per year for the past eight years.

But a large portion of what's happening is what started as a 100% edible oil kind of application and product sales has now moved probably, 30%, 40% of our business is now in sustainable aviation fuel and renewable fuels, and that's growing very quickly. And so this expansion was -- it's going to supply both, but it'll probably get be consumed very quickly with some of the renewable fuels.

We have sufficient reserves in the region for decades and we will look probably to expand the facility again over the next five, six years depending on how the market goes, but this one is an incremental step within the current footprint. The next one might be a whole new footprint if we continue to grow at this pace.

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Michael J Harrison - *Seaport Research Partners - Analyst*

All right, very helpful. And then, last question I have is just on the cash flow and maybe some of the working capital dynamics. You mentioned the higher logistics cost, but I assume you're carrying some additional inventory in the pet care business as you work through these expansions and then is there anywhere else that maybe inventory is a little bit elevated right now?

I'm thinking in particular maybe MgO as you're trying to navigate or mitigate some of the tariff impacts. Just trying to think about how working capital trends in Q4, and how we should think about it as we're starting to look at next year. Thank you.

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

Yeah, thank you, Mike. So in terms of working capital, AR, AP both in good shape. We watched those metrics closely and no major changes there. We are holding on to a little more inventory and you touched on to a few of the spots there, a little higher inventory in pet care, but some strategic positions I would say in the high temperature business. MgO being one of them. Every couple of years there's a river closure in the middle of the US that we have to work around and we build up some inventories to manage around those.

We're going to be working through a lot of those inventory positions in the fourth-quarter, and so we should be ending the year sort of at a more typical level in terms of the inventories. We'll still have some of those strategic positions in place, but more of a typical level from an inventory perspective.

From a cash flow standpoint, we're expecting a strong fourth-quarter as usual for the company, strong cash from ops. The free cash flow number is going to depend a little bit on the pace of some of these growth capital investments that we've talked about. We've got a number of them ramping up in the fourth-quarter, and so, the capital number that ends up happening in the fourth-quarter could depend a little bit on the timing of how those come through. But overall expecting a strong cash flow quarter in the fourth.

Michael J Harrison - *Seaport Research Partners - Analyst*

All right, thanks very much.

Operator

Peter Osterlund, Truist Securities.

Peter Osterlund - *Truist Securities - Analyst*

Hey, good morning. Thanks for taking the questions. I wanted to start just by following up on the recent investments across pet care and bleaching earth. So you've talked about in aggregate, targeting $50 million of growth investments supporting $100 million of additional revenue. Just in aggregate, how much of those targets are represented by what you've already announced and is currently in progress and to the extent that there's more to come where across your portfolio are you still targeting for additional organic growth investments.

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

So if I understand, hey Pete, this is Erik. If I understand the question correctly, the 100 -- $50 million of CapEx and the $100 million of revenue that we've talked about, those are the investments that Doug laid out today in terms of the highlight on growth capital projects that we have. But importantly, that is just a subset of the growth opportunities that we have.

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Much of the opportunity we have is supported by existing capacity and so it isn't requiring necessarily growth capital to support it. Those are just investments that we wanted to highlight supporting the growth opportunity.

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

Yeah, I guess I'll add, Pete, this is just when you look at those markets, and so the North American pet litter market, the Asia pet litter market, the bleaching earth market at $1.1 billion and the renewable fuels growing the fastest segment and then also with paper and packaging and our Minscan's, just these investments are $100 million over the next 12 to 18 months, right? But that trend continues.

That's not just the opportunity in those markets alone, right? I think just the Minscan's if you do the math on the Minscans, each Minscan is probably worth just a $1 million to $2 million depending on the size of the vessel that is going on, etc.

So, yeah, you're looking at just the 18 that we've installed are probably worth about $20 million-plus of reoccurring revenue every year. And there's a whole runway of those to go. Not that we'll get 130 of them, 100% of them, we might. But that market, that's a quarter of a billion dollar market for us just in that product line, right? Look at the bleaching earth market with with renewable fuelse're targeting $75 million of growing this business to $75 million over the next two years.

Pet care, we're a $400 million business. We think that business grows with some of the investments we're making to $500 million and that's been our target for 2027, and I think we're on target for that.

Given this year, it might be another six months, nine months, but we're still seeing that business is another $100 million to grow, and these investments that we've made will support that. So all the way down the list you're looking at hundreds of millions of dollars of opportunity that we've positioned ourselves for.

These investments are the first step in tapping into them, but we've been making these investments over the past five years. This is our third bleaching earth expansion, we've upgraded these other facilities in pet care, and now we're upgrading these two or three key ones. And so these are investments that we've made before we've delivered on. We're making them again and they're setting us up for that continued growth.

So I think you're going to see that. So I took your question a little bit further, but these are big opportunities, but we've positioned ourselves in these markets for these opportunities, and now we're taking advantage of them.

Peter Osterlund - *Truist Securities - Analyst*

No, that's very helpful. Thanks, Doug. And just kind of following up on the pet care investment specifically that you're expecting to finish by the end of '25. I guess what's the time frame to realize that that run rate of incremental revenue that you discussed? I mean, is it any kind of a gradual ramp throughout the course of '26, so you kind of expect that to continue driving growth into '27, or how should we think about that?

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

For pet care and as DJ mentioned, these investments will set us up for longer-term growth, but in particular we've secured about $25 million to $30 million of contracts on an annual basis that should start at the ramp up through the first, but be full run rate by the second. So I think if you snapped the chalk line at the end of March and ran 12 months, we think that's $20 to $25 million of revenue right there.

So next year you're probably expecting $20 million, $18 million of that $25 millions to hit in pet care alone and that's going to continue and we've got capacity - further capacity in China for that market that continues to grow. So we think we're getting this thing back on track. These investments position ourselves with high-quality operations, low cost operations, and strategically located to deliver on the business. And so I think you'll start to see that growth rate revert in the second-quarter.

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Peter Osterlund - *Truist Securities - Analyst*

Very helpful. And then just lastly, I wanted to ask for any update on Talc. It looks like litigation expenses have trended higher each quarter during this year. Just was wondering if you have any update to share on the time frame or expected cost to resolve, and would you expect that until it's resolved with the $7.5 million of litigation expenses you saw in the third-quarter, would that be the run rate of what to expect going forward?

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

This quarter was a little bit higher in terms of activity. I think our average has been more than $3 million to $4 million per quarter. We think it probably reverts back to that. I will say that, we're continuing very diligently to work on establishing a 524(g) trust.

There's not a lot significant in terms of updates to report this quarter. We're waiting to hear back from the Southern District of Texas District court on a number of motions to figure out which lane we'll be in, whether it'll be in the district court or back into the bankruptcy court, and as I mentioned, we're continuing to work to establish that 524. We are wide open to getting this done and getting it done quickly.

But the court systems, they take their time and they schedule themselves, and we have limited ability to kind of impact that portion of it. But so not a lot of progress, but rest assured we are working to get this behind us as fairly and as finally and as quickly as possible.

With regard to costs, the reserve that we have on our balance sheet, we see that as sufficient for the ongoing both establishment of the trust and the costs it's going to take to get there. So no change to what we see in terms of the reserve.

Peter Osterlund - *Truist Securities - Analyst*

Great, thanks a lot for all the color.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Doug Dietrich for any closing remarks.

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

Thanks everyone for joining this quarter. We appreciate the questions. We appreciate the attention and interest in Minerals Technologies, and we'll chat with you again at the end of January. Thank you very much.

Operator

The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.

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