

MINERALS TECHNOLOGIES INC
Form 10-Q
May 03, 2019
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2019

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 1-11430

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MINERALS TECHNOLOGIES INC.
(Exact name of registrant as specified in its charter)

DELAWARE 25-1190717
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

622 Third Avenue, New York, NY 10017-6707
(Address of principal executive offices, including zip code)

(212) 878-1800
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of exchange on which registered
Common Stock, \$0.10 par value	MTX	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES NO

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Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer
Non-accelerated Filer (Do not check if a smaller reporting company) Smaller Reporting Company
Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES NO

As of April 22, 2019, there were 35,235,161 shares of common stock, par value of \$0.10 per share, of the registrant outstanding.

MINERALS TECHNOLOGIES INC.
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PART 1. FINANCIAL INFORMATION

ITEM 1. Financial Statements

MINERALS TECHNOLOGIES INC. AND SUBSIDIARY COMPANIES
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME
 (Unaudited)

(in millions of dollars, except per share data)	Three Months Ended	
	Mar. 31, 2019	Apr. 1, 2018
Product sales	\$417.4	\$412.2
Service revenue	20.3	19.1
Total net sales	437.7	431.3
Cost of goods sold	314.0	305.0
Cost of service revenue	14.0	12.8
Total cost of sales	328.0	317.8
Production margin	109.7	113.5
Marketing and administrative expenses	42.9	44.4
Research and development expenses	4.8	6.1
Acquisition related transaction and integration costs	—	0.4
Income from operations	62.0	62.6
Interest expense, net	(11.4)	(10.7)
Other non-operating deductions, net	(1.4)	(2.7)
Total non-operating deductions, net	(12.8)	(13.4)
Income from operations before tax and equity in earnings	49.2	49.2
Provision for taxes on income	9.3	9.3
Equity in earnings of affiliates, net of tax	0.1	1.2
Consolidated net income	40.0	41.1
Less:		
Net income attributable to non-controlling interests	0.9	1.2
Net income attributable to Minerals Technologies Inc.	\$39.1	\$39.9

Earnings per share:

Basic:

Income from operations attributable to Minerals Technologies Inc.	\$ 1.11	\$ 1.13
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Diluted:

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Income from operations attributable to Minerals Technologies Inc.	\$ 1.11	\$ 1.12
Cash dividends declared per common share	\$0.05	\$0.05
Shares used in computation of earnings per share:		
Basic	35.2	35.4
Diluted	35.3	35.7

See accompanying Notes to Condensed Consolidated Financial Statements.

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MINERALS TECHNOLOGIES INC. AND SUBSIDIARY COMPANIES
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (Unaudited)

	Three Months Ended	
	Mar. 31, 2019	Apr. 1, 2018
(millions of dollars)		
Consolidated net income	\$40.0	\$41.1
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	(0.4)	15.2
Pension and postretirement plan adjustments	1.6	1.9
Unrealized gains on derivative instruments	1.2	1.6
Total other comprehensive income, net of tax	2.4	18.7
Total comprehensive income including non-controlling interests	42.4	59.8
Comprehensive income attributable to non-controlling interests	(1.4)	(1.8)
Comprehensive income attributable to Minerals Technologies Inc.	\$41.0	\$58.0

See accompanying Notes to Condensed Consolidated Financial Statements.

MINERALS TECHNOLOGIES INC. AND SUBSIDIARY COMPANIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(millions of dollars)	Mar. 31, 2019*	Dec. 31, 2018 **
ASSETS		
Current assets:		
Cash and cash equivalents	\$202.7	\$208.8
Short-term investments	4.3	3.8
Accounts receivable, net	406.4	387.3
Inventories	254.4	239.2
Prepaid expenses and other current assets	36.1	37.2
Total current assets	903.9	876.3
Property, plant and equipment	2,269.0	2,256.0
Less accumulated depreciation and depletion	(1,167.9)	(1,153.1)
Property, plant and equipment, net	1,101.1	1,102.9
Goodwill	812.4	812.4
Intangible assets	211.8	214.1
Deferred income taxes	24.8	26.3
Other assets and deferred charges	109.4	55.1
Total assets	\$3,163.4	\$3,087.1
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	\$104.7	\$105.2
Current maturities of long-term debt	2.7	3.3
Accounts payable	178.2	169.1
Other current liabilities	105.2	104.3
Total current liabilities	390.8	381.9
Long-term debt, net of unamortized discount and deferred financing costs	893.4	907.8
Deferred income taxes	198.1	196.8
Accrued pension and post-retirement benefits	124.0	124.2
Other non-current liabilities	129.7	91.1
Total liabilities	1,736.0	1,701.8
Shareholders' equity:		
Common stock	4.9	4.9
Additional paid-in capital	432.6	431.9
Retained earnings	1,817.4	1,769.1
Accumulated other comprehensive loss	(242.7)	(233.7)
Less common stock held in treasury	(618.7)	(618.7)
Total Minerals Technologies Inc. shareholders' equity	1,393.5	1,353.5

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Non-controlling interests	33.9	31.8
Total shareholders' equity	1,427.4	1,385.3
Total liabilities and shareholders' equity	\$3,163.4	\$3,087.1

* Unaudited

** Condensed from audited financial statements

See accompanying Notes to Condensed Consolidated Financial Statements.

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MINERALS TECHNOLOGIES INC. AND SUBSIDIARY COMPANIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(millions of dollars)	Three Months Ended	
	Mar. 31, 2019	Apr. 1, 2018
Operating Activities:		
Consolidated net income	\$40.0	\$41.1
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	24.5	21.1
Amortization of right of use asset	3.4	—
Other non-cash items	2.1	(1.1)
Net changes in operating assets and liabilities	(39.2)	(25.4)
Net cash provided by operating activities	30.8	35.7
Investing Activities:		
Purchases of property, plant and equipment, net	(17.6)	(17.9)
Proceeds from sale of short-term investments	0.9	0.7
Purchases of short-term investments	(1.5)	(2.0)
Net cash used in investing activities	(18.2)	(19.2)
Financing Activities:		
Repayment of long-term debt	(15.8)	(0.4)
Repayment of short-term debt	(0.6)	—
Purchase of common stock for treasury	—	(5.7)
Proceeds from issuance of stock under option plan	0.1	0.6
Excess tax benefits related to stock incentive programs	(1.9)	(3.2)
Dividends paid to non-controlling interests	(0.1)	(0.1)
Capital contribution from non-controlling interests	0.8	—
Cash dividends paid	(1.7)	(1.8)
Net cash used in financing activities	(19.2)	(10.6)
Effect of exchange rate changes on cash and cash equivalents	0.5	5.1
Net (decrease) increase in cash and cash equivalents	(6.1)	11.0
Cash and cash equivalents at beginning of period	208.8	212.2
Cash and cash equivalents at end of period	\$202.7	\$223.2
Supplemental disclosure of cash flow information:		
Interest paid	\$10.9	\$10.5
Income taxes paid	\$5.8	\$4.0

Non-cash financing activities:

Treasury stock purchases settled after period end	\$—	\$0.3
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See accompanying Notes to Condensed Consolidated Financial Statements.

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MINERALS TECHNOLOGIES INC. AND SUBSIDIARY COMPANIES
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Unaudited)

(millions of dollars)	Equity Attributable to Minerals Technologies Inc.						
	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Non-controlling Interests	Total
Balance as of December 31, 2018	\$4.9	\$ 431.9	\$ 1,769.1	\$ (233.7)	\$(618.7)	\$ 31.8	\$ 1,385.3
Net income	—	—	39.1	—	—	0.9	40.0
Other comprehensive income	—	—	—	1.9	—	0.5	2.4
Dividends declared	—	—	(1.7)	—	—	—	(1.7)
Dividends paid to non-controlling interests	—	—	—	—	—	(0.1)	(0.1)
Cumulative effect of accounting change	—	—	10.9	(10.9)	—	—	—
Capital contribution from non-controlling interests	—	—	—	—	—	0.8	0.8
Issuance of shares pursuant to employee stock compensation plans	—	0.1	—	—	—	—	0.1
Stock-based compensation	—	0.6	—	—	—	—	0.6
Balance as of March 31, 2019	\$4.9	\$ 432.6	\$ 1,817.4	\$ (242.7)	\$(618.7)	\$ 33.9	\$ 1,427.4

(millions of dollars)	Equity Attributable to Minerals Technologies Inc.						
	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Non-controlling Interests	Total
Balance as of December 31, 2017	\$4.9	\$ 422.7	\$ 1,607.2	\$ (186.1)	\$(597.0)	\$ 27.4	\$ 1,279.1
Net income	—	—	39.9	—	—	1.2	41.1
Other comprehensive income	—	—	—	18.2	—	0.5	18.7
Dividends declared	—	—	(1.8)	—	—	—	(1.8)
Dividends paid to non-controlling interests	—	—	—	—	—	(0.2)	(0.2)
Issuance of shares pursuant to employee stock compensation plans	—	0.5	—	—	—	—	0.5
Purchase of common stock for treasury	—	—	—	—	(5.7)	—	(5.7)
Balance as of April 1, 2018	\$4.9	\$ 423.2	\$ 1,645.3	\$ (167.9)	\$(602.7)	\$ 29.0	\$ 1,331.8

See Notes to Consolidated Financial Statements, which are an integral part of these statements.

MINERALS TECHNOLOGIES INC. AND SUBSIDIARY COMPANIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Basis of Presentation and Summary of Significant Accounting Policies

The accompanying unaudited condensed consolidated financial statements have been prepared by management of Minerals Technologies Inc. (the "Company", "MTI", "we", or "us") in accordance with the rules and regulations of the United States Securities and Exchange Commission. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted. Therefore, these financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2018. In the opinion of management, all adjustments, consisting solely of normal recurring adjustments necessary for a fair presentation of the financial information for the periods indicated, have been included. The results for the three-month periods ended March 31, 2019 are not necessarily indicative of the results that may be expected for the year ending December 31, 2019.

Company Operations

The Company is a resource- and technology-based company that develops, produces and markets worldwide a broad range of specialty mineral, mineral-based and synthetic mineral products and supporting systems and services.

The Company has four reportable segments: Performance Materials, Specialty Minerals, Refractories and Energy Services.

The Performance Materials segment is a leading global supplier of bentonite and bentonite-related products, chromite and leonardite. This segment also provides products for non-residential construction, environmental and infrastructure projects worldwide, serving customers engaged in a broad range of construction projects.

The Specialty Minerals segment produces and sells the synthetic mineral product precipitated calcium carbonate ("PCC") and processed mineral product quicklime ("lime"), and mines mineral ores then processes and sells natural mineral products, primarily limestone and talc.

The Refractories segment produces and markets monolithic and shaped refractory materials and specialty products, services and application and measurement equipment, and calcium metal and metallurgical wire products.

The Energy Services segment provides services to improve the production, costs, compliance, and environmental impact of activities performed in the oil and gas industry. This segment offers a range of patented and unpatented technologies, products and services to the upstream and downstream oil and gas sector throughout the world.

Use of Estimates

The Company employs accounting policies that are in accordance with U.S. generally accepted accounting principles and require management to make estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reported period. Significant estimates include those related to revenue recognition, valuation of long-lived assets, goodwill and other intangible assets, income taxes, including valuation allowances, and pension plan assumptions. Actual results could differ from those estimates.

Recently Issued Accounting Standards

Changes to accounting principles generally accepted in the United States of America (U.S. GAAP) are established by the Financial Accounting Standards Board (FASB) in the form of accounting standards updates (ASUs) to the FASB's Accounting Standards Codification. The Company considers the applicability and impact of all ASUs. All recently issued ASUs were assessed and determined to be either not applicable or are expected to have minimal impact on our consolidated financial position and results of operations.

Recently Adopted Accounting Standards

On January 1, 2019, the Company adopted the provisions of ASU 2016-02, "Leases", which requires lessees to recognize most leases on-balance sheet. The Company has adopted this new standard under the modified retrospective transition method, using the effective date as our date of initial application. As such, financial information and required disclosures will not be provided for dates prior to January 1, 2019. The new standard provides a number of optional practical expedients in transition. We have elected the 'package of practical expedients', which permits us not to reassess under the new standard our prior conclusions about lease identification, lease classification and initial direct costs. The new standard also provides practical expedients for an entity's ongoing accounting. We have elected the short-term lease recognition exemption for all leases that qualify. On adoption, we recognized additional operating liabilities of \$61.4 million with corresponding right-of-use assets of \$50.5 million based on the present value of the remaining lease payments under existing operating leases. As of December 31, 2018, we had \$10.9 million in deferred charges related to some of our real estate leases that were recorded against the right of use asset as part of the transition. The adoption of this standard did not have a material impact on the Company's financial statements.

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MINERALS TECHNOLOGIES INC. AND SUBSIDIARY COMPANIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)

On January 1, 2019, the Company adopted the provisions of ASU 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income", which allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the U.S. Tax Cuts and Jobs Act. As a result, the Company reclassified \$10.9 million from "Accumulated other comprehensive loss" to "Retained earnings" on the Condensed Consolidated Balance Sheets as of March 31, 2019.

Note 2. Leases

We determine if an arrangement is a lease at inception. The Company has operating leases for premises, equipment, rail cars and automobiles. Our leases have remaining lease terms of 1 year to 50 years, some of which may include options to extend the leases further. The Company considers these options in determining the lease term used to establish the right-of-use assets and lease liabilities. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based upon the information available at commencement date, or as of implementation of ASC 842, in determining the present value of lease payments.

Leases with an initial term of 12 months or less are not recorded on the balance sheet. We recognize lease expense for these leases on a straight-line basis over the lease term. Certain lease agreements contain both lease and non-lease components. We account for lease components together with non-lease components.

Operating lease cost for the quarter ended March 31, 2019 was \$4.1 million. Components of lease cost of are as follows:

	Mar. 31, 2019
(millions of dollars)	
Operating lease cost	\$ 4.0
Short-term lease cost	\$ 0.1

Supplemental cash flow information and non-cash activity related to our operating leases are as follows:

	Mar. 31, 2019
(millions of dollars)	
Operating cash flows information:	
Cash paid for amounts included in the measurement of lease liabilities	\$ 4.0
Non-cash activity:	
Right-of-use assets obtained in the exchange for operating lease liabilities	\$ 0.2

Weighted average remaining lease term, and weighted average discount rates related to the Company's operating leases were as follows:

Weighted-average remaining operating lease term (in years)	7.87
Weighted-average operating leases discount rate	5.0%

The following table summarizes the Company's outstanding lease assets and liabilities and their classification on the Condensed Consolidated Balance Sheet:

(millions of dollars)	Balance Sheet Classification	Mar. 31, 2019
Right-of-use asset	Other assets and deferred charges	\$47.4
Lease liability - current	Other current liabilities	12.3
Lease liability - non-current	Other non-current liabilities	46.1

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MINERALS TECHNOLOGIES INC. AND SUBSIDIARY COMPANIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)

Future minimum lease payments under the Company's operating leases as of March 31, 2019 were as follows:

(millions of dollars)	Mar. 31, 2019
For the remainder of 2019	\$ 11.5
2020	12.3
2021	9.0
2022	7.2
2023	5.9
Thereafter	25.3
Total future minimum lease payments	71.2
Less imputed interest	(13.0)
Total	\$58.2

As of December 31, 2018, minimum lease payments under non-cancellable operating leases were expected to be as follows:

(millions of dollars)	Dec. 31, 2018
2019	\$17.3
2020	13.0
2021	9.5
2022	8.2
2023	7.0
Thereafter	24.8
Total	\$79.8

A summary of rent expense for the fiscal years ended December 31, 2018 and December 31, 2017 was as follows:

(millions of dollars)	Dec. 31, 2018	Dec. 31, 2017
Rent expense	\$19.5	\$19.3

The Company has certain arrangements under which we are the lessor. Lease income associated with these leases is not material.

MINERALS TECHNOLOGIES INC. AND SUBSIDIARY COMPANIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)

Note 3. Revenue from Contracts with Customers

The following table disaggregates our revenue by major source (product line) for the three-month periods ended March 31, 2019 and April 1, 2018:

(millions of dollars)	Three Months	
	Ended	
	Mar.	Apr. 1,
Net Sales	31,	2018
	2019	2018
Metalcasting	\$73.2	\$ 79.2
Household, Personal Care & Specialty Products	74.9	48.7
Environmental Products	15.9	12.7
Building Materials	15.3	18.9
Basic Minerals	19.9	