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PRESENTATION

Operator

Good day, and welcome to the First Quarter 2024 Minerals Technologies Earnings Call. As a reminder, today's call is being recorded.

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

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

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

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

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

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

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

Thanks, Lydia. Good morning, everyone. Thanks for joining today. Okay, let's go over a quick outline for today's call. I'll begin today's presentation by reviewing the highlights from our first quarter. And as you saw in our press release, we posted a record quarter for MTI, and I'll share the actions that drove our strong results. I'll then take a few minutes to give you some insight into the current dynamics of our main markets and also highlight a few growth initiatives that will come into play over the next few quarters. Erik will then take you through the detailed financials and provide an outlook for the second quarter, and then we'll open up the meeting to questions.

With that, let's get started. We're off to a strong start this year with several factors and initiatives that combined to deliver a record quarter. The re-segmentation of the company last year, which organized our product lines around our core technologies and similar end markets, and which also streamlined our internal organizational structure, is driving higher levels of performance. Our strategy to move into higher-growth, higher-margin markets is also delivering. Sales in the Consumer & Specialties segment continue to grow, and our highest-margin products across the company are growing the fastest. The margin expansion initiatives are ahead of our target pace, as we continued to leverage savings from the reorganization, strengthened pricing and captured input cost savings. Each business is executing well operationally, focusing on safety, variable cost control and productivity improvements. Combined, these initiatives led to an all-time record quarterly operating income and first quarter records for earnings per share and cash flow. Overall, we're pleased with the performance and the strong momentum we've built.

Let me take you through some of the highlights. Sales were $535 million, and adjusting for the deconsolidation of Barretts Minerals, were relatively flat compared to last year and up slightly from the fourth quarter. We continue to drive growth across the Consumer & Specialties segment, with sales up 4% over last year on an underlying basis. Sales in the Engineered Solutions segment were lower compared to last year, primarily driven by pockets of weak market conditions in the Environmental & Infrastructure product line.

Within Consumer & Specialties, the Household & Personal Care product line remained on its steady growth track, and sales increased by 7%. This was driven by continued strong demand for private label cat litter and increases across the board for renewable fuel filtration, animal health feed additives, personal care and fabric care products. I'll go into a bit more detail on what's driving this in a moment. Underlying sales in the Specialty Additives product line increased by 2%, driven by a rebound in demand from North America Paper and Packaging customers and also from strong sales of ground calcium carbonate products in our Western U.S. market.

Within the Engineered Solutions segment, High-Temperature Technologies product line sales were similar to last year, with stable steel and foundry market conditions in our major geographies. We experienced a few foundry customer maintenance outages in North America in January, but volumes rebounded quickly throughout the quarter, and demand remains solid. We also saw continued growth of foundry volumes in Asia. In the Environmental & Infrastructure product line, sales were lower than last year due to an uncharacteristically slow seasonal period for Commercial Construction. We were also involved in a couple of very large environmental remediation projects last year, adding to the comparative sales decline.

As I mentioned, each business put up a solid operating performance this quarter. They maintained strong pricing, actively secured lower input costs, and remained focused on safe and efficient operations. The savings realized from our internal reorganization last year also contributed to increased profitability. These actions, combined with the strong sales mix, yielded an operating margin of 14.5% and a record $77 million of operating income, a 23% increase over last year. Earnings per share were $1.49, a 31% increase over last year. Cash flow was also strong this quarter at $56 million.

This quarter is a good example of the power of our new organization, our focused strategy and the strength of our business model. For the past few years, we've built a balanced portfolio of leading Consumer and Industrial businesses that provides stable long-term growth. We're expanding margins through the innovation of higher-value products through operational excellence and fixed cost leverage. We've strengthened cash flow, increased returns to shareholders and maintained balance sheet strength and flexibility. Overall, I'm pleased with the start to the year and the positive track we are on.

As we head into the second quarter, I want to take a few minutes to give you a bit of color on the current market conditions for each product line and also highlight a few new products that are advancing over the next several quarters. It should give you a sense of the positive combination of market conditions and new business opportunities that we see driving strong results for the second quarter and into the back half of the year. As a general backdrop, the second and third quarters are typically our strongest due to seasonal strength in the residential, commercial construction and environmental remediation markets. We're also seeing improvement on top of this regular seasonality in a few of our markets compared to last year, which I'll point out as I move through the product lines.

Let's start with Household & Personal Care. Markets served by this product line continue to be robust. We are the leading provider of private label cat litter, and global demand remains solid. Market for our personal care products has moved past last year's destocking phase, and we're seeing improvements in our order book. Innovation, driven by close collaboration with our customers in each of these markets, is paying dividends. And demand for our newest products in animal health, renewable fuel filtration and fabric care is growing.

On the growth initiative side for this product line, we have several new innovations for Pet Litter and Fabric Care -- for the Fabric Care market that are moving through development, and that will result in new sales in the coming quarters. These products, focused on cat wellness and hygiene for pet litter and aesthetic and softening particles for laundry detergent, are being commercialized this year.

Additionally, the trend toward natural ingredients across the consumer product spectrum continues, and our core technologies applied to our mineral reserves uniquely positions us to benefit from this trend. We're collaborating with customers to develop solutions like mineral-based absorptive additives for animal feed and ingredients like our natural delivery system for Retinol in Personal Care.

In Specialty Additives, general market conditions are relatively solid. Global Paper and Packaging markets remain stable, and we're seeing improved PCC demand in North America compared to last year. The residential construction market in North America is entering its normal seasonally strong period, and we've also seen market conditions gradually improve over the past couple of quarters.

A few additional growth drivers for this product line - we're benefiting from 3 new Paper and Packaging satellites that were commissioned last year, and we have 5 more satellites scheduled to start up this year and into early next. As a reminder, of these 8 new satellites, 5 are for standard PCC, 1 is for our NewYield recycling technology, and 2 are large ground calcium carbonate plants for white packaging, 1 of which also incorporates our NewYield technology. We continue to have a solid pipeline of opportunities across our product and technology platform, many of them aimed at the packaging market and for further deployment of our sustainable filler solutions. All in all, we have a positive outlook for this product line for Q2 and into the back half of the year.

In High-Temperature Technologies, we continue to experience steady global market demand for our engineered blends. Automotive, heavy truck and industrial casting production in our main geographies of North America and Asia remain stable. And at this point, we see demand conditions remaining relatively strong.

A few areas to point out here. I've mentioned that process automation and data analytics have been areas where we've focused our innovation to provide higher value for our customers' manufacturing processes. Our MINSCAN units for electric arc furnaces are a result of this development. These units enable the automated measurement of furnace conditions and the subsequent application of our more durable and higher-performing refractory blends. Over the past 18 months, we've secured 15 new long-term contracts for these units and the supply of refractory products. This year, we're installing 8 of these units, which will drive sales growth for this product line throughout the year.

Our Environmental & Infrastructure product line currently faces pockets of mixed market conditions but also some very exciting long-term opportunities. We're entering the strong season for environmental remediation projects, and there are signs that the commercial construction market is beginning to turn, given an increase in inquiries we are seeing from customers. We remain cautious that the market is actually hitting an inflection point. But once it does, we expect to benefit relatively quickly because our subsurface waterproofing and vapor barrier products are used toward the beginning of many construction projects.

One area to highlight for this product line, of which I'm sure many of you are aware, is that the EPA recently announced a national standard to limit PFAS and related chemicals in drinking water. This is a positive development, and it establishes a significant market for our FLUORO-SORB product. We've been trialing FLUORO-SORB for both drinking water and groundwater PFAS remediation for several years. Our solution is cost-effective and versatile in its deployment and explicitly targets PFAS and associated molecules. No doubt, this is a crucial regulatory step, and we expect it to further stimulate interest in FLUORO-SORB but it will take time for the drinking water PFAS market to fully develop and move from this initial regulation to be in full compliance by 2029.

FLUORO-SORB applicability extends beyond municipal drinking water and is equally effective for groundwater and wastewater remediation and sediment capping systems. We have plans to run more than 100 pilot trials throughout this year, mostly for municipal water, but also for several large groundwater remediation projects. We're confident that many of these pilot trials will convert into stable revenue-generating opportunities. Over the long term, we see the remediation of PFAS from water around the world as a significant growth opportunity for MTI.

To sum up, we're seeing generally positive market conditions across the board as we head into the second quarter. Additionally, each of our product line -- in each of our product lines, we have several initiatives, developed through our innovation pipeline and aligned with macro market trends, that will continue our momentum and drive both near-term and long-term growth.

Lastly, I want to give a quick update on progress with Barretts Minerals Inc. As you may have seen, we entered into an agreement to sell BMI's assets, which was approved by the Bankruptcy Court a few weeks ago. We are currently working through closing the transaction, which is slated for early next week. Proceeds from the sale will be used to repay the DIP financing that was put in place last year, as well as to fund the ongoing bankruptcy process. This is an important step in MTI's exit from the talc business and represents forward progress in BMI's Chapter 11 process. The sale not only delivers value and certainty for BMI's various stakeholders, but it also enables MTI to move forward with a clear focus on our core long-term strategic objectives. We'll continue to keep you informed of additional progress, which we're advancing as expeditiously as possible.

Now, I'll turn it over to Erik to review the financial details, segment highlights and our outlook for the second quarter. Erik?

Erik C. Aldag - *Minerals Technologies Inc. - Senior VP of Finance & Treasury and CFO*

Thanks, Doug, and good morning, everyone. I'll start by providing a summary of our first quarter results, followed by a review of our segments, and then I'll wrap up with our outlook for the second quarter. Following my remarks, we'll turn the call over for questions.

Now, let's review our first quarter results. We had a very strong start to the year with several record-setting performances in the first quarter. First quarter sales were $535 million, up slightly versus the prior year on an underlying basis. Underlying sales in the Consumer & Specialties segment grew 4%, driven by volume growth across the segment. In the Engineered Solutions segment, sales were lower than the prior year, driven entirely by slow conditions for Environmental & Infrastructure projects. The year-over-year sales growth for this product line was especially challenged, given the relatively strong start we had last year, including a few large remediation projects at superfund sites in the U.S. I'll note here that as we lap the Q1 comparison period, we expect MTI's overall year-over-year sales growth to revert to the mid-single-digit range on an underlying basis.

First quarter operating income was $77 million, up 23% from a year ago, driven by a 290 basis point improvement in operating margin. As you can see in the operating income bridge on this slide, the income and margin growth in Q1 came from 3 areas. First, volume and mix drove $2 million of income improvement and 60 basis points of margin improvement, driven by strong sales of higher-margin products, which resulted in a favorable mix impact. I should also highlight that the prior year income in this bridge includes income from BMI. So the volume/mix contribution from the underlying business was greater than the $2 million shown in this bridge. Second, our disciplined pricing is helping to ensure that our margins reflect the value we provide to customers. Pricing overall contributed to $5 million of income and 100 basis points of margin improvement versus last year. Third, we realized a cost improvement of $7 million versus last year, or 130 basis points of margin, as our operations teams continue to drive productivity and variable conversion cost improvements at our facilities, and as the restructuring program we announced last year has reached full run rate savings. In addition, as input costs such as energy and freight have stabilized over the last few quarters, we have favorability versus the prior year Q1 when we were working through significantly higher cost inventory.

All of the above contributed to a gross margin of 25.4%, 330 basis points above last year, and EBITDA margin of 18.8%, 310 basis points above last year.

In short, we are executing on the margin improvement strategy we outlined in our Investor Day last year, and there is plenty of opportunity for further margin improvement, particularly as we leverage incremental volume across our fixed cost base, as we continue to innovate and commercialize new products, and as we continue to grow the highest-margin products in the portfolio.

Earnings per share was $1.49 excluding special items, up 31% from prior year and represented a record level for the first quarter.

Cash flow was also strong with cash from operations of $56 million up 66% versus last year and also representing a record level for our first quarter.

Now, let's review the segments, beginning with Consumer & Specialties. First quarter sales were $297 million, up 4% on an underlying basis from prior year. Sales in our Household & Personal Care product line were up 7%, driven by higher volumes across end markets. Demand for cat litter products remained strong, growing in the mid-single digits, and growth across the rest of this product line was around 10%.

In Specialty Additives, underlying sales were up 2%. We're seeing growth from our 3 new paper and packaging satellites in Asia. And in Europe, we were encouraged to see volumes improve sequentially and year-over-year, which helped offset the sales impact from formula-driven price changes. Meanwhile, demand for our residential construction applications has remained resilient.

Operating income was $42 million in the first quarter and operating margin improved by 330 basis points to 14.1% of sales. Improved volume and mix, disciplined pricing, favorable input costs, and a 6% productivity improvement drove a 30% year-over-year increase in operating income for this segment.

Looking ahead to the second quarter, we expect demand for Household & Personal Care products to remain solid with continued year-over-year growth. In Specialty Additives, we expect higher sales sequentially in the seasonally stronger period for residential construction, and we'll continue to see sales increases driven by our newest satellites ramping up in Asia, which will mostly offset typical second quarter customer maintenance outages in North America. Altogether, we expect another strong quarter, with operating income up approximately 5% sequentially and up 30% year-over-year.

Now, let's review the Engineered Solutions segment. First quarter sales in the Engineered Solutions segment were $238 million, 5% lower than last year. Sales in our High-Temperature Technologies product line were 1% lower, as some of our foundry customers in North America took temporary maintenance outages early in the first quarter. Meanwhile, we saw continued improvement in foundry volume across Asia. In the Environmental & Infrastructure product line, sales were lower by 14%, driven by softness in commercial construction and environmental lining projects. As I mentioned, we also had a few large remediation projects in the prior Q1 that are affecting the comparison.

Despite the lower sales, segment operating income improved 9% to $38 million in the first quarter and operating margin improved by 200 basis points to 16.2% of sales. The margin improvement was driven by favorable product mix, disciplined pricing, cost control, and a solid operating performance that resulted in 11% productivity improvement versus last year.

Looking ahead to the second quarter, we expect market conditions in steel and foundry to remain stable with a sequential improvement in Asia foundry due to the Lunar New Year holiday in the first quarter. We are also expecting higher sales to steel customers, driven by installations of our newest MINSCAN technologies at several EAF mills in the U.S.

In Environmental & Infrastructure, we'll see a sequential increase in sales as we enter the seasonally stronger period for environmental and commercial construction projects. As Doug mentioned, we are seeing improvements in bid activity, but it is too early to say whether this market has hit an inflection point.

Overall, we expect another strong performance from this segment in the second quarter with operating income up approximately 10% sequentially and up 10% year-over-year.

Now, let's turn to our balance sheet and cash flow highlights. We delivered record cash flow for a first quarter, generating $56 million of cash from operations and $39 million of free cash flow. CapEx totaled $17 million in the first quarter. Our full year outlook for free cash flow remains unchanged in the $140 million to $160 million range. We continued our balanced approach to capital deployments in the first quarter, using our free cash flow to pay down $13 million in debt and returning $18 million to shareholders, including $15 million of share repurchases and $3 million of dividends. So far, we've completed $29 million of the $75 million share repurchase program, and we are on track to complete the program by the end of the authorization in October. The balance sheet remains very strong. Total liquidity at the end of the first quarter was $536 million, and our net leverage ratio was 1.8x EBITDA.

Now, I'll summarize our outlook for the second quarter. We expect a strong performance for MTI in the second quarter. In Consumer & Specialties, we expect demand for consumer-oriented products to remain strong, and we are entering a seasonally stronger period for residential construction.

We will also benefit from the continued ramp-up of our new paper and packaging satellites. In Engineered Solutions, we expect sequential and year-over-year growth from High-Temperature Technologies. We also expect a seasonal uptick in Environmental & Infrastructure activity, with sales for this product line returning to a similar level to last year. In total for MTI for the second quarter, we expect year-over-year underlying sales growth between 3% and 5%, operating income between $80 million and $85 million, and earnings per share between $1.55 and $1.65, representing another strong quarter for the company.

Now, I'll turn the call over for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We will take our first question from Daniel Moore with CJS Securities.

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

Doug and Erik, thanks for the color. Appreciate taking the questions. Start with Consumer & Specialties. Obviously, on this call and the last several calls, you've laid out a lot of the new formulations and emerging opportunities from edible oils, animal feed, alternative milks, retinol, et cetera. How do we think about -- I guess, where are you seeing the most pull or the most penetration near term? And how do we think about sizing those opportunities? And a follow-up on the PFAS emerging opportunity as well, if you don't mind.

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

Sure. Maybe I'll kick it off, and then I'll hand it to D.J. Monagle to give some more color. We're seeing growth across that product line. In Consumer & Specialties, let's talk mostly about the Household & Personal Care product line. Our pet care business continued to grow, I think, 4% this past quarter. We're seeing that continue quarter-over-quarter. We're seeing -- our specialties business grew 10%, I believe, this quarter. And that came from animal health growth, renewable fuels, fabric care. So it's been really across the board, Dan. And I think that's the pace that we outlined in our Investor Day that this Household & Personal Care business should grow in that 7% to 10% range kind of compound year-over-year. So it's acting and doing what we thought it would do.

We're also -- I wanted to highlight a couple of trends that we're following and we're participating in, like natural additives, and our innovation pipeline is in tune with that. So I think not only are the markets growing, but we have innovations behind it with new products that will continue to feed that type of growth rate.

I don't know, D.J., if you want to give some more -- any particular things in pet care or fabric care?

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

Yes. So Dan, it's tough to zero in on any one thing because it has been across the board. There are several exciting things going on that Doug had kind of mentioned and alluded to during the future statements. Sticking with the Household & Personal Care side, I think that the strategy of that pet litter business is starting to pay off. They've gotten well aligned with their private label customers, in particular, working with them, and as they understand their brand strategies, that private label strategy, they enhance and bring forward some innovations that help with pet ownership. And so, those are things as simple as packaging, but then expand further and improve performance of the pet litter, which goes anything for lower dusting, more aesthetically pleasing. And then, the recent additions are things that will help cat owners train their cats better and get them more associated with the litter box. You go to household, personal and the consumer specialties group, we are doing very well with the pull that's coming from renewable fuels. We see our relationship with key customers strengthening, especially in Europe. And the macro trend supporting that growth is very strong.

And then, in a little different shift, if we go to the Specialty Additives business, Doug pointed out the great progress that we're seeing with the new satellites. And now, this is working on our crystal engineering competency. But these new satellites and new products are kicking in, and we've got several more that will be coming on throughout the year. And the pipeline for that remains very robust. And then applying that same core competency of crystal engineering, we do see further growth coming from advanced sealants in the construction and automotives industry. Some pull also from the food industry. You alluded to the non-dairy milks. That continues to be an area of interest for us, and we can add to that whole category. And there are also some new markets that we're starting to get exposed to as people explore alternatives and as we branch out further and stretching that core competency.

So, I know I gave you a lot, but it really is across the board, but also perfectly in line with what we had laid out in the Investor Day.

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

Does that help, Dan?

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

Very helpful. Yes, it certainly does. And appreciate the color, Doug, on PFAS, and certainly happy to see the EPA decision. Any more color you can provide in terms of how you think about the scope of the opportunity, not in '24, '25, but 5 years and beyond? And then, any update as far as kind of potential EPA approval for FLUORO-SORB as a key player in that market?

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

I'll tell you what, why don't we do 2 things. One, I'll pass it to Brett Argirakis to give you kind of what we're working on, what's happening here in the near term, what's going on with regulation. And maybe I'll talk a little bit about the longer term after that. Brett, you want to go?

Brett Argirakis - *Minerals Technologies Inc. - Group President, Engineered Solutions*

Yes, sure. Thanks, Doug. Thanks, Dan. Look, let me just recap the regulation quickly, and then I'll give you some update on our activity. First of all, the new regulation, as you know, was passed last week. It'll be in full effect in 5 years from the promulgation date. So that will bring us the regulation to enter at April of 2029. That allows for capital -- any capital to be put in place in time to meet the regulations on a parts per trillion basis. Although this regulation is for drinking water, we do expect additional regulations to come out over the next few years that really can provide us even more opportunities throughout our verticals.

So let me give you a little update on the activity. We have had a lot of activity already to date before the regulation came out. They have -- the regulations have accelerated discussions, both on a federal and state agency level, for evaluations to -- of alternative options from the current options. We have been and continue to collaborate closely with the EPA, local agencies and municipalities as well for the use of our FLUORO-SORB to remove PFAS in drinking water. But our ultimate goal really is to prove FLUORO-SORB is one of the best available technologies for eliminating the PFAS. These agencies are all fully aware of our products and our activity. We will continue to work very closely with them. And so, right now, our FLUORO-SORB technology is currently treating drinking water in 3 full-scale implementations in the Northeast. We have one additional full-scale implementation coming on this month. And as Doug mentioned in his speech, we are piloting several trials now and expect to implement probably over 100 pilot trials this year, mainly on municipal water. The majority of those are going to be in North America, but we do have a few of those in Europe.

[But outside] drinking water, we do continue to pursue and implement global in-situ remediation projects to control PFAS at the source. Some examples might be like pump and treat applications for groundwater sites, reactive core mats for stormwater conveyance and sediment capping, as well as other soil stabilization projects. Really, based on the test results and feedback we're getting, we're really confident in the FLUORO-SORB, feel good about it that the benefits will generate additional revenue and continued interest moving forward. But just to be a little cautious, it's going to take some time to test and prove our product to support the new regulation. But we do expect to continue to generate activity moving forward over the next few years.

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

Dan, I'll just add the long term. As I mentioned in my remarks, I think this is a big growth opportunity for the company for that product. Brett just mentioned, municipal water is one area, and that will develop over the next 4 or 5 years, and we've got a great position and a great product to be able to participate in that market. But longer term, as we get into broader cleanup, as I mentioned, our product is equally as effective there. And we've been doing some cleanup projects. We think that could be even a bigger market for sure than the municipal water market. But now -- and so, providing us long-term sales. This is something that's going to -- we're going to benefit from for a long time. But right now, I just want to keep us focused. We're working on making sure that this is best-in-class technology. We're working through those hurdles. We're trialing it. Like I said, 100 trials. We're working closely with agencies. So we're in a good spot. But yes, this is a big near-term opportunity and a nice long-term opportunity for the company.

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

Perfect. Last one for me. I'll jump out. You already hit your 14% EBIT margin target this quarter. Implication is to do a little bit better than that in Q2. And you mentioned Q2 and Q3, typically seasonally stronger periods. So it sounds like you expect that typical seasonality to hold this year. And if so, I'm not asking you to update it, but that kind of 14% exit rate looks conservative at this point. Is your eye still just getting to that 15%? And if we get there quicker, great. Or how do we kind of think about where we go from here?

Erik C. Aldag - *Minerals Technologies Inc. - Senior VP of Finance & Treasury and CFO*

Yes. Thanks, Dan. This is Erik. So you're right, 14.5% in the first quarter is a great place to start. Right now, we're assuming we can maintain that level at least going forward this year. And we do, as you said, typically expect a lift in the second and third quarters, so it should be above 14.5%, all else equal. So we're feeling pretty good about the margin trajectory. We're watching energy rates. We'll be managing things tightly if we do see an uptick over the summer in terms of energy rates, but that sequential volume improvement over the middle 2 quarters should go a long way to helping out the margins as we go through the year. So I guess, you mentioned 15%. If we were going to do 15% in a year, 14.5% in the first quarter is not a bad place to start. So I guess, it's early in the year, but as long as we see no major changes in macro or input costs, yes, we can do 15% this year. It would help if we got some help from the commercial construction markets, for sure, but we're feeling pretty good about the margin trajectory right now.

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

Very helpful. Appreciate the color. Congrats on the strong performance.

Operator

We will take our next question from Mike Harrison with Seaport Research Partners.

Michael Joseph Harrison - *Seaport Research Partners - MD & Senior Chemicals Analyst*

Congrats on the strong start to the year. I was hoping that maybe we could dig in a little bit -- I'm kind of curious, you just commented a little bit on the margin performance, and it sounds like you believe a lot of that is sustainable for the rest of the year. But I wanted to dig in a little bit on -- in both segments, you called out some productivity improvements. I believe you said 6% year-over-year productivity gain in the Consumer segment and 11% in the Engineered Solutions segment. Can you maybe help us understand kind of what's baked into that improving productivity number?

That's kind of -- those are kind of specific numbers. And I'm just curious kind of what metrics are you using? And can you maybe help us understand how you expect those productivity gains to evolve in both segments in the next several quarters?

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

Yes. Thanks, Mike. Thanks for the question. Maybe I'll start and pass it over to Erik. Productivity is something we measure every month. We set productivity targets, where -- it's a key indicator of efficiencies, and it's part of our operational excellence. It's a metric that we watch through our OE processes. We're constantly looking at removing waste from operating processes, from business processes, you name it. We measure it from a productivity standpoint. And so, we -- Kaizen events that are working with teams to redraw processes, remove waste, lock in new standards. We're moving -- this is something that's just inherent in the company and part of our culture. So, this year, I think it was 6% and 11% in the 2 segments. Erik, is that where it was?

Erik C. Aldag - *Minerals Technologies Inc. - Senior VP of Finance & Treasury and CFO*

That's right, yes. And that's -- Mike, that's measured on a tons per hour worked basis. So that's the metric that we're looking at.

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

And going forward, Erik? Do you want to give him a forecast what's baked in?

Erik C. Aldag - *Minerals Technologies Inc. - Senior VP of Finance & Treasury and CFO*

Yes. We expect continued -- I mean, part of the -- we did exceed the guidance that we gave in the first quarter, Mike. A big part of that was the strong operational performance that we had. Our teams are working really well to improve productivities, improve variable conversion cost per tons. At the facilities, this is something like Doug said, we measure and track and manage very closely at the operational level. So we're expecting those productivity improvements to continue through the year. That's something that's embedded into the margin profile of the company. So, hope that helps.

Michael Joseph Harrison - *Seaport Research Partners - MD & Senior Chemicals Analyst*

Yes, very helpful. And then, I guess, maybe just to kind of follow up on that, you have in your slides here, a cost number, and it looks like that cost contributed 130 basis points of year-over-year improvement. I'm assuming that part of that cost improvement is in these productivity numbers and metrics that you're talking about. But part of it's also related to just input costs. And it sounds like some of your input costs were favorable year-on-year. So maybe just give us a little bit more detail on what you're seeing in terms of input costs and energy costs as we're looking out into Q2 and Q3.

Erik C. Aldag - *Minerals Technologies Inc. - Senior VP of Finance & Treasury and CFO*

Yes. sure, Mike. So, yes, that $7 million of improvement in the cost bucket versus last year, that includes the very strong operating performance. That includes the productivities we're seeing. Particularly around the pet care business, we're seeing a lot of improvements there and a lot of cost savings versus last year. It also includes the $10 million cost savings program that we've achieved full run rate in the first quarter, so call it, $2.5 million of savings there from the restructuring program. And yes, we have favorable freight and energy, primarily versus last year. That's really a year-over-year comparison. If you think about last Q1, we were still working through some significantly higher cost inventory levels. So energy and freight, that played a role in the year-over-year favorability, but that's really been embedded in the margin heading into the quarter. If you think about it on a sequential basis, we didn't have a huge change in input costs sequentially, Q4 to Q1. Maybe $1 million favorability from an energy perspective. So, that sequential margin improvement we saw was mostly driven by that improved volume and mix in the Consumer & Specialties side, the pricing and the productivity, and the variable conversion cost performance.

Michael Joseph Harrison - *Seaport Research Partners - MD & Senior Chemicals Analyst*

All right. That's very helpful. And then, I wanted to dig in from the last question here on the High-Temperature Technologies business. It sounds like you're seeing relatively strong demand trends, even though the underlying sales number was down a little bit year-on-year. But maybe just give us a little bit more detail on what you're seeing in terms of market drivers and some of the actions that you guys are taking to benefit from new customer wins and kind of new product-related growth.

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

Yes. I'll start. Mike, in the High-Temperature Technologies product line, yes, sales were relatively flat. I think, as Erik mentioned, the decline over last year was a couple of outages that we saw in North America that didn't happen last year, maintenance outages that were extended. But volumes and demand picked up through the quarter, and we see that being relatively stable going forward. Major end markets, automotive, heavy truck, industrial, and some good volume growth in Asia, we see continuing. So, stable markets. We got a good feel for it, at least as we sit today. And it looks like through the back half of the year, unless macro trends change. But right now, we're feeling good about that product line.

Brett, do you want to take kind of new products, what's going on? What's driving some of the future growth that I mentioned?

Brett Argirakis - *Minerals Technologies Inc. - Group President, Engineered Solutions*

Yes. For the High-Temperature Technologies, really, when you take a look at it, the Refractories business is really, really strong right now. Both -- if you look at the foundry business first, foundry business, North America, pretty stable, as Doug said. There was some slowdowns in North America. Asia is still kind of flat, but they're doing okay. We don't see any major drop-offs yet. The steel business from the Refractories side has been pretty solid, about 77% utilization rates now. That's been -- that's a little bit higher than the first quarter was, but it's very stable. We anticipate maybe some Q2 spring outages, which is fairly normal for some maintenance outages. So there might be a slight dip. But we're not seeing anything major. From the European side, it's still very soft. So the steel industry there is soft. There's a couple of steel plants, one in the U.K., one in Eastern Europe, that is -- that are ramping down and probably closing permanently. But in Europe, we are seeing green steel, as we saw in the United States, the move from integrated steelmaking to nonintegrated or BOF to electric arc furnace. And that's starting to transition. In North America, we -- as you saw in the presentation, we have acquired 15 new automated MINSCAN units, and we're going to do 8 of those that are planned for this year. Those units really was -- it's about the automation and optimization of these units. It was really driving from that transition from BOF to EAF. And we were well positioned to make that move with our steel customers. This is -- this approach really ties in the laser. It ties in -- so you can laser the furnace. You can -- it's automated with PLC controls, so it automatically applies product to the low spots of the furnace. And really, most importantly, it's pulling employees off the shop floor and away from molten steel. So this has been really a great accomplishment by the team and it worked through our key customers.

So, in parallel, what we did is that technology, while we were developing the equipment, was developing high-grade products. For instance, I'll give you an example. We normally, what we call gunning or applying our refractory products over brick that has been worn away by the molten steel, we normally did that in the upper portion of an electric furnace. We've developed products that now go deeper into the furnace, into what we call the banks and the bottoms of the furnace. This is technology that we haven't really participated much in. And now, our technology is tied into these 5-year contracts that include that refractory. And that portion of the refractory is 2x more -- consumes 2x more than the refractory that we are currently utilizing. So this is really exciting for the business, and that is a growth market. We anticipate having, as we said, 15 units through '25. In fact, we have our employees from Europe coming over next week, and they're going to be visiting so that we can promote this even further into the European business. But I will mention, we do have 2 units already in Turkey. We have some units in Europe, but with this green steel technology change, we plan to drive this even further like we did in North America.

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

Does that help, Mike?

Michael Joseph Harrison - *Seaport Research Partners - MD & Senior Chemicals Analyst*

Yes. Appreciate the detail there.

Operator

We will take our next question from David Silver with CL King.

David Cyrus Silver - *CL King & Associates, Inc., Research Division - Senior MD & Director of Equity Research*

So, I have a couple of questions. I hope the first one is not too confusing, but I'm just trying to scratch my head and get -- I'm scratching my head and just trying to get my arms around the price versus volume, I guess, drivers this quarter. So revenues on an underlying basis were basically flat. And you did talk about volume strength in H&PC, or Home & Personal Care, and a couple of other areas. But again, to get back to kind of a flattish revenue profile year-over-year, is really all of the volume softness pretty much on the Environmental & Infrastructure side? Or are there some other pockets or areas where improved price kind of made up for maybe some decline in the units sold? Just trying to get a finer sense of which parts of the business were growing volume or units-wise versus which ones maybe were not and how price played a bigger role, let's say, in the revenue performance.

Erik C. Aldag - *Minerals Technologies Inc. - Senior VP of Finance & Treasury and CFO*

Sure. Thanks, Dave. This is Erik. So, yes, the volume decline was all in the Environmental & Infrastructure product line, as we mentioned, soft commercial construction conditions and those larger projects that we had last year. The High-Temperature was relatively flat. The High-Temperature Technologies product line was relatively flat. We pointed to some customer maintenance outages early in the quarter this year, from the foundry perspective, but overall volume is relatively flat. And then, in the other product lines, we saw volume growth. So that's what you're seeing. Kind of the net, net of all that ended up being relatively flat volume growth, but mainly driven by that Environmental & Infrastructure product line.

David Cyrus Silver - *CL King & Associates, Inc., Research Division - Senior MD & Director of Equity Research*

Okay. I was hoping to hone in a little bit on the Specialty Additives side, and in particular, the 5 new satellites that are scheduled to be brought online this year. And I guess, I was hoping D.J. might be able to characterize them. In other words, I have to kind of check my press releases, but I'm just wondering how many of the 5 would you categorize as kind of the legacy PCC for copier paper or that type of grade of paper. And I see there are 2 NewYield opportunities. Maybe if you could just discuss how those came about? And then, I'm assuming there are some new satellites for packaging. Is that the white box or the pizza box type of packaging? Or is that maybe making some inroads onto the brown paper side? So just an overview of what newer projects are going to be coming online this year.

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

David, let me try and address those as best I can for you. First one, just to look at it from that packaging segment, one of the new opportunities that has already contributed growth is for packaging in China. That's on a white box, and it is where we brought some innovation into the ground calcium carbonate space. So that's already in those numbers. One of the new ones to which Doug referred earlier was -- it's a GCC and a NewYield combination. So, that will also be in the specialty papers and packaging papers, and some printing and writing grades in that one. So those are the 2 on packaging.

One of the items that just came on is standard PCC, kind of the legacy PCC, with some updates and tweaks to it. It is in a printing and writing application currently, but it is located with someone who also makes a board. And we are hoping we can grow with that customer. So, that was a strategically placed standard PCC contract in a -- on a paper machine that is printing and writing grades, but the customer makes packaging, and we're growing our relationship with them.

The other opportunities we have was a small standard PCC plant in India, a standard PCC printing and writing grades. And then the other NewYield opportunity that we had was in Brazil. Now, this particular one is retrofitting an existing satellite into a printing and writing grade and taking advantage of -- and working with the customer of a waste stream that they were landfilling and being able to convert that into a useful pigment. So I guess the additional color that I would provide is that this NewYield technology that applies our crystal engineering technologies, we are seeing increased interest in that. We are seeing increased interest in both the printing and writing space and in the packaging space. It basically presents itself as a customer is throwing away waste that comes from the pulping operation. And so, what we're able to do is share savings with them and make good paper or packaging products. So that's an opportunistic technology that has a growing interest, given the need for a growing circular economy. Does that provide the color you were looking for, David?

David Cyrus Silver - *CL King & Associates, Inc., Research Division - Senior MD & Director of Equity Research*

Yes. And then, maybe just a brief comment on the new project funnel. And if you were doing a pie chart, what percentage of the new project funnel, as you see it, is comprised of, I'll just call it, the nontraditional satellite plant opportunities, in other words, white paper packaging, brown paper, NewYield, just not the printing and writing papers that you -- that were -- that would dominate the legacy satellite projects?

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

So if I were to divide it up into packaging versus paper, I'm probably 60/40 printing and writing grades and 40% packaging. But in that printing and writing grades, there's still a fair amount of pull for some of the newer products like NewYield. There are some other ones that we are chatting with the customers about. So the pipeline, I would say, is -- if you want to look at it on a technology basis, it's probably 40% to 50% legacy traditional products and 50% newer innovative products.

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

That's a big change -- I'll just add, that's a big change from where it was before. I would say if you asked us that question 3 years ago, David, that'd probably be 90/10, kind of 90/10 traditional legacy PCC. So that -- moving that toward 60/40, but even 50/50, if you look at the technology -- the new technology deployment, is a big shift. And so, that's been part of the strategy. Legacy PCC plants, good business, high cash flow, great returns, but supplanting and meeting customer needs with new technologies like NewYield, with NewYield combined with GCC, these are new things. And these are -- and we're meeting those customer needs, as D.J. said, for more sustainable products and packaging and cost savings associated with waste streams. And so, that's what's driving the shift of our opportunity portfolio to kind of 50/50, and that's where we see the opportunities driving growth.

David Cyrus Silver - *CL King & Associates, Inc., Research Division - Senior MD & Director of Equity Research*

Okay. That's great color. And then, one more for me. I'm going to go back to the FLUORO-SORB opportunity, and it has been covered here in some detail, I understand. But my understanding is when the EPA was finalizing the regulations for drinking water and setting the limits for PFAS content, there was a bit of a tug-of-war between the 4 parts per trillion level that they settled on and maybe a higher level that would have been easier, I guess, for the drinking -- the water plant operators to meet maybe on a smaller budget. Just how would you say the FLUORO-SORB opportunity either grows or shrinks, depending on the limit that is set? In other words, I guess, the EPA settled on the 4 parts per trillion, but I think they also set a goal even more stringent, potentially 0 in some cases. But how would you say the thinking of the potential customers shift toward FLUORO-SORB or some of the other alternatives as the tolerances for PFAS content become tighter and tighter?

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

Yes, I think -- so the 4 parts per trillion, I should get this right, is really kind of the lowest detectable -- it's a non-detect limit. This is -- kind of being able to detect below 4 parts per trillion is almost very difficult. So I think this is kind of the -- it borders on basically non-detect. What I will say then is that through our trials and through -- of how -- the work we're doing with our FLUORO-SORB product, by itself, our FLUORO-SORB is able to get to 4 parts per trillion or a non-detect on its own. It's very effective - the way it's designed to be able to deliver results to that level. So we're confident that with this regulation that municipal water -- and they're all different. There's different utilities. There are different configurations and capital. We're working through all of that right now. But on a new installation or a new physical remediation plant [out of] municipal water, FLUORO-SORB would be able to take it down to 4 parts per trillion. So we may be used in conjunction with other media. We may be retrofitting into existing equipment. There's a whole lot of things that are going on, but we're a very effective product. And I think that will play into the limits that are set ultimately, I think, if they are on groundwater and wastewater cleanup, it's applicable in that market as well. So, again, early days, but we've got a good product. But we want to continue to test. We want to continue to work with agencies. We want to continue to work in states. We want to -- we're working with municipal water to ensure that this product is going to meet those needs. But right now, after the past couple of years of trialing, it looks like a really good product.

Operator

(Operator Instructions) We will take our next question from Kyle May with Sidoti & Company.

Kyle May - *Sidoti & Company, LLC - Equity Research Analyst*

A couple of quick ones for me to hopefully round things out. Looking at capital expenditures, they were lower this quarter compared to the last few quarters. Just wondering if we should think about this as a new lower run rate or if this quarter was more of an anomaly.

Erik C. Aldag - *Minerals Technologies Inc. - Senior VP of Finance & Treasury and CFO*

Yes. Thanks, Kyle. This is Erik. So, yes, CapEx was a little lower than the run rate, mostly a timing -- mostly a function of timing. We're still expecting between $90 million and $100 million of capital expenditures for the full year. So you'll see that ramp up a bit in the coming quarters.

Kyle May - *Sidoti & Company, LLC - Equity Research Analyst*

Okay, great. And then, also in the Environmental & Infrastructure segment, you noted part of the year-over-year change was the 2 large remediation projects that were completed last year. Just curious if you could give us an update on your outlook for the opportunity set there.

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

Yes. Those were large remediation projects last year, big ones, the Gowanus Canal, I think, and Lake George, where we were providing some product for that water remediation in those water bodies, also big Superfund sites. And so, we will participate in big projects like that. These are ongoing projects. So, as the next phase comes around, we're likely to participate, continue to participate in them. So a bit of chunky revenue when you get these big product lines. Those were the 2 last year. The outlook was pretty -- it was a weaker first quarter. Right now, we're hitting the seasonal period for environmental remediation, both from just wastewater remediation but also lining systems. We have a pretty solid outlook. I think we said we're going to revert probably back to that normal kind of growth rate for the second and third in this business.

The other part, as I mentioned, of this product line is that commercial construction. I think just reiterating that, right now, we're seeing some increase in activity in terms of inquiries, but whether they turn into actual projects later this year into next is a little bit undetermined. But at least there's some increased activity we haven't seen over the past 3, 4 quarters. So our outlook for the product line is positive, a little bit of caution, given the consumer -- or the residential construction, but for the environmental side of it, we got relatively positive 2 quarters ahead of us.

Kyle May - *Sidoti & Company, LLC - Equity Research Analyst*

Okay, that's great. And last one, I know we've talked a lot about the EPA, but I was hoping if you could maybe just kind of quickly remind us maybe how much of your 5-year outlook includes the FLUORO-SORB opportunity. And then, with the actual regulations now somewhat in place, do you think there's potential upside to what you've already baked into your 5-year outlook?

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

Yes. So we put in -- I think we had a $30 million to $40 million of revenue in the 5-year outlook at 2027. That was a year ago when we -- before the regulation was put out. I think we're probably still in that range, could be on the high end of that range. I think there might be upside. I think, Kyle, what I'll give you is, municipal water customers are going to -- by 2027, to have something tested in place, 2 more years after that. So we're looking out at 2029. I think it will ramp up. It'll go slower, then it'll start to ramp up. So I think the opportunity is bigger than that. But I think over the time period in our 5-year plan, that's what we looked at. If it goes faster and these trials work and our work with EPA accelerates, I think there could be some upside. But right now, I think we're kind of going to stick to, and we'll give you updates as we get through some of these trials this year in that range that we gave you at our Investor Day last year.

Operator

We will take our next question from David Silver with CL King.

David Cyrus Silver - *CL King & Associates, Inc., Research Division - Senior MD & Director of Equity Research*

I just had one follow-up. Doug, I was hoping just -- you have touched on your business in China at various points during this call, but I was just wondering if you might be able to kind of take a step back or give us a broader perspective. Maybe two things, but just the overall relationship with the Chinese authorities. There's a lot of back and forth on a bunch of different vectors, I guess, or whatever. Hard for us to judge from a distance. And then, secondly, maybe just to comment on your view of how the recovery or the rebound in overall Chinese economic activity as it relates to maybe your industrial businesses would be very helpful.

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

Yes. I'll start with the first question. David, we have good relationships in China. A lot of our business is done in partnership with our customers and joint ventures. These are large employers in the regions, large paper mills. We've been there a long time; 24, 25 years we've participated in doing business in China. We're good stewards of -- in our mining operations, from an environmental standpoint, we've recently been awarded -- we've gotten some awards and recognition up in our plant and kind of close to Inner Mongolia. And so, I think we approach China like we approach anywhere else in the world, being good stewards of what we do there, environmentally conscious. And I think that flows through into the relationships we have with the local communities, governments, customers, et cetera. So our relationships are strong. And I think that, that helps us through working through new business opportunities in that partnership, having that long-standing relationship and standing in the country. What we're seeing right now is pretty stable. Last year was a -- last first quarter was a challenging year, at least in our -- in the industrial side of the business, coming through -- it seems like a long time ago, but coming through some of the COVID shutdowns through the first quarter. But we saw a stable ramping up, at least in our business, both from a general foundry conditions in terms of demand, but also as we continue to penetrate into the market. There's a lot of room for us to continue to penetrate our green sand bonds into China and also India and into Asia. So we will continue to progress there. And that's what's feeding a lot of the growth. And so, we saw this steady growth and movement throughout the quarters, and we're still seeing that steady growth and improvement. Erik mentioned we're seeing -- we saw volume growth in China in particular, but Asia in general, in the first quarter. We're going to see that continual general growth.

So from our standpoint, on the industrial side, it's not booming, but it's also pretty stable, and we can do a lot of work with that. We're working with customers to save money. We're putting in new blending systems to help with the scrap rates. We're participating in a pretty strong industrial market right now with a large portion of our sales go into kind of compressor housings and big castings that go into refrigeration, and that's doing really well right now. So we've got a really good, stable outlook for China right now. And as D.J. mentioned, we won't go into it again, but we've got 5 satellites, 3 of which are ramping up in the region. And so, we've got some good growth ahead of us on the paper and packaging side. So right now, it doesn't look terrible to us. It looks pretty stable, and it looks like stable growth for us ahead through the rest of the year. Long answer, but I want to make sure you got a feel for how we look at China and Asia in general.

Operator

At this time, we do not have any further questions. I'd like to turn the call back to Mr. Dietrich for any closing remarks.

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

Thank you, Marie. Appreciate everyone joining today. Hope you have a good weekend, and we look forward to talking to you in another 3 months. Take care.

Operator

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