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PRESENTATION

Operator

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

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

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

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

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

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

Thanks for the introduction, Cindi, and good morning, everyone. I'll start the call today by covering the highlights from our first quarter, including a number of factors that impacted our results, both positively and negatively. I'll then take some time to provide an overview of our operating environment and the current state of our end markets as well as the trends we're seeing. After that, I'll turn it over to Matt to review our financials.

The first quarter of every year is usually our most volatile, and this one was no exception. I'll characterize the quarter as a productive one for us, marked by our team's solid performance navigating through several market and operating challenges. On the markets side, we experienced a slow start to 2019, most notably in China and Europe as well as in the building and construction markets in North America. While these factors were most pervasive in the first 2 months, conditions improved for us in March when we saw a noticeable uptick in business activity as demand picked up across our markets and geographies.

We executed on several strategic fronts during the quarter. Specifically, we delivered solid geographic growth, increased volumes through new capacity expansions and generated sales from recently introduced value-added products that gained traction with customers. Additionally, we extended our larger global position in pet care through Sivomatic's strong performance in Europe.

From a financial perspective, total sales in the quarter increased 1% over last year to $438 million and were up 4% on a constant currency basis. We generated $62 million of operating income with double-digit margins across all segments and delivered earnings per share of $1.11. As we've done in previous quarters, we tightly managed our expenses as well as our overall cost structure, drove productivity improvements and implemented measures to adjust to the market conditions seen early in the quarter. Continued pricing actions, which increased revenue by about $10 million over last year, more than offset persistent inflationary cost pressures, extending the trend from the second half of last year.

Now let me take you through some of the quarter highlights for each segment. In Performance Materials, Household and Personal Care sales increased 54%, driven by the acquisition of Sivomatic and 25% growth in our pet care products in North America, where we're benefiting from strong private label pet care demand and healthy customer pull for our new product formulations, such as lightweight cat litter, scented and non-scented scoopable litters, as well as our new fragrance boosters.

Additionally, Environmental Products sales grew 25%, driven by a large remediation project in the Middle East as well as strong pull for our innovative environmental and wastewater remediation technologies.

While overall sales in Metalcasting were lower, North America remained relatively strong with sales increasing 3%. Slower activity in China during January and February weighed on our Metalcasting sales for the quarter, but we benefited from an improving demand environment there in March. A positive note, demand for and penetration of our higher-value pre-blended greensand bond products remained strong.

Building Materials, with sales down 19% compared to last year, was the product line most impacted this quarter from weather-related construction project delays in North America, our largest market.

In our Specialty Minerals business, sales were impacted by lower Paper PCC volumes in North America, primarily due to the year-over-year impact of paper machine closures that occurred last year. Our PCC expansion in Asia continues to build momentum. During the quarter, we finalized the construction of our new 125,000-ton PCC plant in Indonesia, which came online in April. And we expect to break ground on our 150,000-ton plant in China in the next few months.

Our Specialty PCC business had a strong quarter with sales up 6%, driven by increased customer demand for our newest products, which were supported by the capacity expansion that came online at our U.K. facility.

In our Refractories segment, we continue to benefit from improving steel market conditions in the U.S. where utilization rates averaged 82% for the quarter, up from 77% last year. However, we did experience some market weakness and lower demand in European steel markets.

Energy Services delivered a much stronger quarter compared to 2018 with sales up 6% and operating income up nearly $1 million. We're beginning to see increased customer demand for our services in the Gulf of Mexico as offshore activity picks up.

Our innovation pipeline, a key source of organic growth, is robust. We continue to strengthen our efforts in terms of increasing the number of products being commercialized and improving the speed with which we bring them to market. To size our new product pipeline for you, we have a total portfolio of over 280 products from early-stage development through commercialization, representing over $600 million of revenue at full potential.

There are between 40 and 50 of these products in the final stage before commercialization. Specific to the quarter, we made solid progress in product development across all of our businesses, highlighted by several of our newest PCC technologies, including enhanced variations of our NewYield and high filler solutions that moved closer to commercialization. We've adapted our innovation pipeline to meet evolving demands from our customers, who require products geared towards environmental and recycling issues in addition to cost reduction solutions.

Acquisitions are also an important component of how we intend to grow. We continue to analyze and evaluate potential acquisitions, and we have an active pipeline of opportunities.

To recap the quarter, we navigated through a couple of challenging months, but maintained positive momentum in several growth areas as we move into our strongest period of the year.

As I mentioned, EPS for the quarter was at a similar level to last year, reflecting the slower start we experienced in several of our markets. However, we saw demand pick up significantly in March, which continued into April, and we expect these improved market conditions to remain throughout the second quarter.

So let me take you a little deeper into what's happening across our end markets and geographies. I thought it would be helpful to give some additional context around the second quarter and what we're seeing through the second half of the year. I'll also outline the key projects for 2019 that will drive growth at MTI irrespective of the market and demand conditions.

I'll begin with Metalcasting, our largest business in Performance Materials. Overall greensand bond demand in North America from foundries supplying the agriculture, machinery, heavy truck and automotive markets remained relatively stable, and we expect these conditions to continue for the balance of the year.

We also see solid demand and an opportunity to continue our growth in India and Southeast Asia where we've delivered double-digit sales increases over the past several quarters. In China, we believe the foundry market will be stronger in the second half of the year compared to the first half based on conversations with our customers around the potential impact of several government stimulus programs focused on the automotive and transportation markets. Given the solid demand we saw for our blended products during the first quarter, we remain confident that the value proposition of our blended greensand bonds will continue to drive penetration into the foundry market. For the full year, we anticipate continued sales and volume growth in China, likely in the mid-single digit range.

We have a very positive outlook for our global pet care business as the trends in our key markets and geographies remain strong. Private label packaged demand is robust. Our new fragrance formulations and packaging options are seeing increased customer pull, and our premium bentonite-based litter products in Europe are trending upward. In addition, the investments we've made in both our Fabric Care and Bleaching Earth products are also driving sales and profit growth, and we expect this performance trend to continue.

For the remainder of the year, we have a stable outlook on construction markets in North America, which we serve through our Building Materials, Talc and GCC product lines. Overall, we anticipate base volumes in these products to improve as we enter our seasonally stronger part of the year. Going a little deeper, our Talc and GCC products are sold into paints, coatings and general construction materials in the residential construction markets, and we see these volumes improving after a slow start to the year.

We also expect to realize increased sales in our Building Materials product line from commercial construction projects that shifted out of the first quarter. And in our Environmental Products business, we expect the positive sales trend in the first quarter to continue into the second. We have a very strong pipeline of higher-margin remediation projects where we can deploy our Resistex and FLUORO-SORB products. We look to capitalize on these opportunities over the course of the year.

Turning to Paper PCC. Paper markets are relatively healthy with operating rates in North America and Europe at around 90% for the first 3 months of 2019, which is a similar level to the past several quarters. We expect our Asia PCC volume to pick up in the second half of 2019 and into early 2020 as 300,000 tons of additional capacity will come online from the 2 new satellite plants as well as through satellite expansions. In addition, we have an active pipeline of more than 20 opportunities for new PCC satellites and for the application of our new high-value technologies.

In Specialty PCC, after a strong start to the year, we see an opportunity to build on the solid demand for our current and new high-performance sealant products. Our capacity expansion in the United Kingdom continues to ramp up, and we will be bringing on an expansion at our Adams, Massachusetts plant in the second half of the year to support growing customer demand.

For our Refractories segment, we expect to continue to benefit from stable steel market conditions in the U.S., while the slower demand environment in Europe will likely persist. We anticipate a strong year of laser equipment sales, similar to last year, along with robust demand for our Hybrid Refractory products globally. In total, we see another positive year for this segment.

And in our Energy Services business, increased global demand for our services should remain for the rest of the year, and we've secured several large well testing and filtration projects that will take place over the next 3 quarters. Our produced water analytics offering is gaining traction with an expanded customer base, which will result in additional service contracts. We're also beginning to see signs of pricing recovery that should help improve this segment's profitability later this year.

To sum it all up, after a slower start to the year, demand trends turned positive in March and April, and many of our key end markets are heading in a more favorable direction. These market trends, combined with our new technology launches, new capacity additions, ongoing pricing actions and continued strong operating performance, positions MTI for another solid year.

Now I'll turn it over to Matt to go through the details of the quarter and our outlook for the second quarter. Matt?

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

Thanks, Doug, and hello, everyone. I'll review our first quarter results, the performance of our 4 segments and also provide you with our outlook for the second quarter. Sales grew 1% in the first quarter or 4% on a constant currency basis. Despite a slower start to the year in several of our markets and regions, we experienced a notable increase in activity late in the first quarter, and we delivered solid growth across several of our product lines.

Gross margin was 25.1% in the first quarter, lower than the prior year, driven by an unfavorable product mix due to project delays in Building Materials, lower sales of Drilling Products and reduced North American PCC volumes. We managed expenses tightly and reduced SG&A by $2.8 million versus last year, resulting in an 80 basis point reduction in SG&A as a percent of sales.

Operating income for the quarter was $62 million versus $63 million in the prior year. Excluding the impact of foreign exchange, operating income was essentially flat compared to the prior year. The pricing actions we are taking delivered $9.7 million in the first quarter, which more than offset $8.2 million of raw materials, freight and energy inflation. Total business performance includes the impact of product mix and the North American PCC volumes.

Earnings per share were $1.11, 2% lower than the prior year, primarily due to the change in operating income. Our effective tax rate was 18.9%, equal to the first quarter of last year.

And now, let's review the segments in more detail, starting with Performance Materials. Performance Materials sales increased 6% led by HPC and Environmental Products. Segment sales grew 8% on a constant currency basis.

As Doug highlighted, we delivered 54% growth in HPC, driven by the Sivomatic acquisition, but also a 25% increase in our North American pet care business where we are capturing increased demand for our private label pet care products. Environmental Products sales grew 25%, driven by a large bauxite and red mud remediation project in Saudi Arabia as well as strong pull for our innovative new products from customers who are seeking environmental and recycling solutions.

Our growth in these 2 product lines was partially offset by decreased sales in Building Materials, Basic Minerals and Metalcasting. Building Materials sales were 19% lower due to weather-related project delays in the United States, and Basic Minerals sales were 28% lower on weaker demand for Drilling Products, particularly in the Permian Basin of the United States.

Metalcasting sales were impacted by weaker market demand in China, particularly in the first 2 months of the quarter and mainly within the specialty sands portion of the product line. Sales of our value-added pre-blended greensand bond formulations in China were less affected and returned to prior year levels in March, and we also see continued growth from our penetration strategy going forward.

In addition, our global greensand bond business continued to show strength outside China, with North America, India and Southeast Asia sales all growing this quarter. Operating margin for the segment was 13.2% in the quarter and was impacted by an unfavorable product mix from delayed projects in Building Materials and lower sales of Basic Minerals products.

I'd also like to highlight that pricing actions more than offset the inflationary costs we're facing. We will continue to raise prices to recapture the cumulative inflationary cost increases that this business has absorbed and drive operational excellence to increase productivity gains.

Segment operating income was $26.3 million, up slightly from the prior year. And now looking to the second quarter, we expect operating income to be higher by $4 million to $5 million as we're in the seasonally stronger period for Building Materials and Environmental Products. We should also benefit from the Building Materials projects that were delayed in the first quarter. We see continued strength in pet care, and we expect to build on our late first quarter momentum in greensand bonds globally.

Now let's turn to Specialty Minerals. Overall, sales in this segment were 3% lower than the prior year, primarily due to the North American paper mill shutdowns and a slow start for Paper PCC in China. Sales in this segment were flat on a constant currency basis. Specialty PCC sales grew 6% on strong demand for our innovative Ultra-Pflex and Thixo-Carb sealant products in North America and from our capacity expansion in the U.K., which started ramping up in the first quarter.

Sales of GCC were down slightly. Demand on the East Coast was higher, while severe rain in Southern California delayed construction projects and pushed some of our sales on the West Coast out of the first quarter.

Talc sales were 5% lower due to weaker volumes of our residential construction projects that support our paints and coatings customers. Operating income was $22 million versus $24.1 million in the prior year. This was the segment that was most impacted by foreign exchange, and it contributed roughly half of the decline in segment operating income. North American paper machine shutdowns drove the remainder of the operating income reduction.

I'd also like to point out that pricing actions are more than offsetting inflationary costs. In Paper PCC, contractual price increases are offsetting higher lime costs. And in Performance Minerals, we are raising prices to overcome higher energy prices. And looking to the second quarter, we expect to offset the impact of paper machine shutdowns in North America with volume growth from our new Indonesian satellite and higher volumes from our existing facilities in China, India and Brazil. We are entering a seasonally stronger period for sales of Talc and GCC, and we expect SPCC sales to remain strong. Overall, for the segment, we expect operating income to be higher by $2 million to $3 million sequentially.

Now let's turn to the Refractories segment. Refractories segment sales were 2% lower than the prior year, primarily due to lower sales of metallurgical products. Refractory products growth in the U.S. was offset by lower steel demand in Europe, primarily in Turkey and Germany. Operating margin was strong at 16.4%. Operating income was $12.1 million, 5% lower than the prior year, primarily due to the lower sales and higher raw material costs.

Note that these higher raw material costs will be passed through to customers in pricing beginning in July. As we look to the second quarter, continued weakness in Europe will be fully offset by strength in North America. We're also introducing Hybrid products in Europe, which provide enhanced value to our customers and have proven very successful in North America. Overall, for this segment, we expect operating income to be similar to the first quarter.

And turning to Energy Services. Energy Services sales grew 6% as the increase in offshore activity continued from the fourth quarter of 2018 into the first quarter of 2019. We saw growth in global well testing, wastewater and custom engineered equipment sales. Operating income was up $900,000 versus the prior year on increased international activity. Going forward, we expect similar levels of activity for the first quarter and a similar level of operating income in the second quarter.

Now let's take a look at our liquidity and debt highlights. Cash from operations was $31 million in the first quarter, and we deployed $18 million of capital. As you can see on the chart, cash flows are typically lower in the first quarter than they are in the other quarters of the year. As I've discussed previously, we expect strong cash flow generation to continue in 2019.

In the first quarter, we repaid $15 million of debt. And over the past year, we have repaid nearly $90 million, maintaining our net leverage ratio at 2.2x EBITDA. Our total debt is $1 billion and is evenly split between fixed and variable rate debt. Interest expense in this quarter was up $700,000 year-over-year on higher interest rates on the variable portion of our debt and a slightly higher debt level.

We will continue to pay down debt towards our goal of achieving a net leverage ratio of 2x EBITDA. The company's financial position is strong with $207 million of cash and equivalents and $200 million of availability on our revolving credit facility for a total of $407 million of liquidity.

So now let me summarize what we are seeing for the second quarter, which is typically our seasonally strongest quarter of the year. In Performance Materials, we expect operating income to increase 15% to 20% sequentially or $4 million to $5 million. In Specialty Minerals, we expect operating income to increase 10% to 15% sequentially or $2 million to $3 million. We expect both Refractories and Energy Services to deliver similar levels of operating income sequentially.

And as I turn to our EPS guidance, let me note that at current foreign exchange rates, we are not expecting the same benefit to our below-the-line earnings as last year. In total, we expect second quarter earnings per share to be between $1.20 and $1.25. With the momentum we had in March and April, the market dynamics that Doug outlined and the incremental growth from our expansions and innovations, we expect to grow both sales and operating income in the second quarter by 10% sequentially and 4% to 5% year-over-year.

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

QUESTIONS AND ANSWERS

Operator

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

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

A couple things as far as Household and Personal. Maybe, I think, you said North America was up 25%. What was organic growth in that segment? And what kind of organic growth do you think is reasonable as we lap the Sivomatic acquisition?

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

Dan, the 25% in North America was organic growth and driven by still -- of the 54%, I'm trying to give you the split there. But 25% it's -- our largest business is North America, while it's not equal to Europe, and that was both driven by volume and pricing.

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

Helpful. And on the Environmental Services, how much longer does that Middle East project last? And I think you said you had a pretty good pipeline there. I guess, is this sort of a lumpy project? Or do we see continued growth as we look out to the back half of the year?

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

Yes. Let me start off, and then I'll let Jon talk a little bit about both actually, comments on pet care as well. Yes. That's -- again in this product line, we get some very large projects, and then there's some small remediation or base GCL products. This is one of those high-value Resistex type projects. It's for a red mud pond that -- for a customer in Saudi Arabia. It's actually the second phase of what we've done. We did the last one I believe with this customer several year -- 3 years ago or so. So it's a large one and will extend into the second quarter.

But beyond that -- and so we're very positive about that and that growth. Beyond that, we have a large pipeline. I mentioned in some remediation projects, similar types around the world. These are for the higher-value products, Resistex, and starting to see some interest in demand in our FLUORO-SORB product. If you remember that's that new product we've developed, which takes PFAS out of water. We know if you've seen in the news that that's been a big issue with water remediation around the United States, in particular. And so we've qualified that product with a number -- in a number of places, and we see that that's going to grow some demand throughout the year.

So we're pretty positive on our Environmental Products business. And it is one of the base GCLs or one of the lower-margin products. I mean, not that low but below average, I guess, for the segment, which is why Matt highlighted when you sell -- when we're selling more of this right now, that does have a dilutive effect on the margins. But these projects, I'm talking about going forward are the higher-margin type. And we think that that's going to be very accretive to margins as we go throughout the year. Jon, anything you want to -- on the type of projects you want to add to that?

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

Just a couple comments. Like Doug said, we are pretty bullish on Environmental Products right now. The projects that we see in queue, we do have several large projects. They are Resistex-oriented. They are in different parts of the world, and the timing is staggered and sequenced over the course of the next year or so as far as starting up. The benefit of the technology is certainly being recognized, and the value proposition is there. So again, we're pretty bullish on Environmental Products from the Resistex side.

With FLUORO-SORB, last quarter, we got the NSF certification for the 4 products that we have in our product line right now. Again, that's a testament to the value of the products and the capabilities they have. Certainly positions us very well to satisfy the customer requirement. So again something that we're looking forward to as we continue launching that product line and executing projects going forward. I did want to just follow up on the pet care question as well. I wanted to add. I thought you asked also about the organic growth over in Europe. That's been about 5% per year, and we continue to see that going forward with our premium and customized pet litter products that we sell in Europe.

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

And Dan, a little bit more on North America. I was looking at something when you asked the question. That's -- in my comments, that was really -- that really is organic growth. It's driven by volume expansion in our packaged pet care products. We've come up with a number of different formulations for customers, customer-driven formulation and fragrance packages and the new product called the fragrance booster. It's not necessarily a cat litter itself, but it's actually something that's -- that seems to be trending very well with the customer demand where you're actually kind of like a salt shaker sprinkling fragrance into the box.

And so we provide that as kind of a tangential add-on product to our pet litter. So we had a number of new things, customer pull, new product innovations, packaging. And I think private label demand just, in general, has been increasing over the past several quarters. And so we're seeing volume growth. And that with some of the new products, that's driving up some of the pricing as well. So we see we're really positive on the pet care product. And as Jon mentioned, Sivomatic in Europe is trending very favorably and especially in some of that premium bentonite category. So we see a good year for pet care going forward.

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

That's helpful. It's the overall organic, and I've got enough of a picture. Last one for me and apologize, maybe a couple of parts. But in terms of the Q2 guide, really nice to see the improvement and the reacceleration on the top line expected, still fighting some cost headwinds and not a ton of operating leverage. So as you look out to H2, is more significant margin expansion reasonable to expect in light of the inflationary pressures, Doug? And what levers can you pull either in terms of pricing or more significant cost reductions that start maybe translating the top line growth into a little faster bottom line?

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

Yes. I appreciate that, Dan. We are -- getting the leverage has been a bit challenging given that we continue to see persistent inflation. I'd say the cost pressures are tailing a little bit in different places. Some are accelerating even further and some are tailing. Matt mentioned we had about $8 million year-over-year this quarter where we saw for the past 3 almost $10 million year-over-year. So it's slowing but not tremendously. We are, though, I'll say, getting ahead of that in price. So this is the second, third quarter in a row where our pricing has outpaced the cost inflation. So that is helping the underlying margins.

So in many of our product lines, margins are boosting. You didn't see it this quarter just because of the mix of what happened. I don't like to talk about mix, but that is the reality this quarter. So we do see margin expansion and getting further leverage as we go. Our target has always been to get to 16% operating income margin. I do think that 15% is a near-term reality. I think our highest we saw in 2017 is about 15.5%. And I think within this year, we can start getting back to 15%, albeit I'll couch that with inflation.

We lag in some of our pricing, formulaic, but also on pricing to customers. And so as these cost pressures continue, we're going to continue to lag it. Once these start to tail over, I think, we'll get back to normalized pricing, and you'll see that 15% margin. And then further with the products that I'm talking about, the new formulations and pricing in pet care, pricing across the board in Performance Minerals and also the Environmental Products and some new Paper PCC technologies, those are above-average margins.

That's our strategy with our new technologies. That's what's going to get us through 2020 into the 16% range or the upper 15s, okay. So I'm very bullish on the margins. There is more room to go on cost reduction. We are focused, as you can see this quarter, on overheads and total fixed. We made some good strides this quarter in making sure that we kept our costs in control, productivity continues to improve, but there's more to go on costs. And I think that will also help get to those margins quicker. So more to come on that one.

Operator

And we will take our next question from Rosemarie Morbelli from G. Research.

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

So just looking at Refractories. Is that margin sustainable with that part of the mix, and we should not expect it to be at this -- to remain at this particular first quarter level for the balance of the year?

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

Well, let me take it, and then I'm going to pass it over to Brett Argirakis, who is the President of that business. Yes. So I think those margins are largely sustainable. Rosemarie, I think if you remember -- you probably remember when margins in the business were about 6%, right?

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

Unfortunately, I do.

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

You do. So we've taken that business and through Brett's leadership to a different level, new products, et cetera. But yes, so I do think it's sustainable. I'll let Brett take you through kind of what he's seen over the past couple of years running the business and the changes he's made to make that kind of margin sustainable going forward.

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

Rosemarie, thanks for the question. Unfortunately, I remember those margins when they were at 6% as well. This business has always provided very good service equipment and products. And after the last financial crisis, we resized this business to the right levels that I think are very sustainable. We've focused on business fundamentals, OE, safety, expense control. Productivity was focused on very heavily as well. And customer requirements -- and we looked at our research and development group, and they did a really good job of focusing on value-added products. Just in every category, Refractories, for instance, Doug pointed out the Hybrid product. Last year, this was rolled out very well, and we launched about 17,000 tons of the new Hybrid product in North America alone.

These products were developed for the customer to be faster, to apply easier and to give them a lower-cost solution, and they really caught on very well. The good news is we're in the process in Europe and Asia right now. Mainly Europe doing a very good job. We have a lot of trial activity there. So we anticipate doing the same things in Europe this year. Ferrotron, same thing. We looked at the value of our laser, which is the fastest in the world. This -- we launched a new LaCam Explorer technology this -- last year, sold our first unit that will allow us to utilize the laser and read the measurements of refractory in a very hot environment.

This new laser will be able to detect the smallest issues in a refractory lining and really create a much safer and more efficient operation for the customer. And lastly, really what we've done with that Ferrotron engineering group is tied them into equipment in multiple product lines. So they have helped us with optimizing our equipment in lasers, refractory and also our calcium wire equipment. So it's been a long road. And look, I'm very proud of what this team has done, and we're on track for another very solid year in 2019.

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

Yes. So to sum it up, Rosemarie, I think we are benefiting from some strong conditions in North America. As I mentioned, we saw some weakness, but we think through the balance of the year -- and we're at a different level of margin in this business now given kind of the products we're selling, the value we're bringing to the customer and ability to maintain those margins through inflationary periods. So a little bit different business now than it was back when -- talking about you remember.

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

Yes. That was very helpful. Looking at the greensands. So automotive production has slowed down in China. But your strategy is that -- is one of substitution. So I was wondering if during the slowdown there were more trials going on and we could see quite a jump in demand when the production improves maybe in the second half.

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

Yes. We've always talked about how demand for our products is based on substituting a base clay or our current customers -- their own formulations. And so we continue to conduct trials. Automotive production, especially and greensand bond demand, was lower in January and February, but after the Chinese New Year picked up considerably. We did see trial activity. We're continuing to see strong demand for our greensand bond product, and those were in my comments. And say, we see that as a testament to our ability to continue the penetration in that market. Furthermore, it's not only automotive that we sell into, the foundry market supplies heavy truck, industrial equipment, and those fared a little bit differently than automotive in China. They were a little bit stronger. So, Jon, anything to add to that?

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

Sure, just to talk about the segments. Auto sales in China were down 11%. But as Doug highlighted, the compressor market was flat and the heavy engineering actually grew about 24%. What we also see is as there's more and more pressure on the casting industry in China, there are new lines coming on. And those new lines are heavily automated. They are using Western technologies. And as a consequence, they're demanding the high-value blended product. So while we did see some decline overall in our sales, especially around that Chinese New Year time in February, we've responded -- the market's responded very nicely in both March and April. And the greensand bonds -- the blended products continue to be very robust, and we continue to see demand for our specific product line and also growth going forward. So again another part of the business that -- with the blended products we continue to see the value of our proposition going forward.

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

And if I may, on the pet care, you did not mention Asia. What are you seeing there, particularly in China, where, according to my view, there are going to be many, many cats in households?

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

Yes. We still see continued growth in pet care in Asia. We have highlighted it before. I think it was overshadowed by some of our growth here in North America. Obviously, North America and Europe are bigger base. I think our average pet care sales have grown mid-double-digits. I think we were at one point about 100%, but as that base gets bigger year-over-year, we've been growing in the 40%, 50% range per year. Albeit from a small base, but yes, we're continuing that trend. We've got a number of different lightweight litter [products] (added by company after the call) that we introduced there last year. We've got a number of different fragrance formulations as well. So smaller base, Rosemarie, but still we note the trends in terms of domesticated cats in Asia. That is something that's going to continue, and we intend to continue to look to capture on that market.

Operator

And our next question will come from Silke Kueck from JPMorgan.

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

My first question is like the -- is sales analysis. So on Slide 8, what you say is this, is that your sales growth excluding currencies was up $18 million and is that price was up like $10 million and the acquisition probably contributed like $20 million. Your volumes were down $12 million. That goes 3%. Is that the right way to look at it?

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

Yes. So your mix there is okay. You have -- overall sales were [up] (added by company after the call) 1%. FX, as we told you, would have been about an [$11 million] (corrected by company after the call) impact. So when you remove that, that gets you to that 4%. Sivomatic, like you said, gets you into that mid-20s range, which it's been trending, but going higher, as Jon told you, from when we purchased it. You have pricing, which Doug outlined to you, which is about 2%, and the rest there would be volume.

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

So Sivomatic is like in the mid-20s million dollars per quarter attributed to sales?

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

In dollars, yes.

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

Yes, In dollars.

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

Okay, in dollars. Okay, that's helpful. In the Metalcasting business, Doug, what you said is this, that you think that the business is stabilizing. And by stabilizing, do you mean it's going to be flat year-over-year or it's actually growing year-over-year?

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

So there's 2 parts. Let me take that one, Silke. There's 2 parts to the Metalcasting business. We don't talk about one of them. It's a smaller part of it. It's called specialty sands, but we have what's called greensand bonds. Those are the ones we talk about in terms of clay blended products, North America, Asia growth and then the specialty sands. Specialty sands goes into stainless steel castings. It has a raw material in it, chrome-based raw materials that's -- it's market-driven in terms of pricing.

The biggest impact this year -- this past quarter was on that specialty sands piece. I think pricing was off almost 40% over last year, and our volumes were down a similar amount due to the weakness. And most of that goes into China. The greensand portion of it was relatively strong, and we saw the growth throughout Southeast Asia, North America, et cetera. So we see -- in total, for Metalcasting, we see -- and specialty sands is about 15% of that product line. So we see continued growth in Metalcasting this year.

We think with the flat -- kind of flat to slightly down North America automotive market, we see a growing -- a better second half in Asia in terms of not just automotive but in total industrial output, which will help our greensand bond volumes there. The thing is that we have a pretty large decline in terms of revenue from that specialty sands, and that's going to probably temper that growth a little bit this year globally. So we still see a positive year, but it's going to be lower growth due to that specialty sands. Now that specialty sands, like I said, is a small portion of our business, and we're really -- the profitability -- the margins are driven -- are going to be driven this year from that greensand bond program.

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

So your expectation is including everything and considering what your currency headwinds may be, you think in Metalcasting sales will be up year-over-year or up a little bit?

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

Yes. I mean I can't predict currency. I think currency in China was one of the biggest headwinds. We were down -- I think we were down 15% in sales in China. Our volumes in greensand bonds single digit, but our volumes in specialty sands double digits. There were threefold what -- and that was really driven by that commodity pricing. So we saw pricing drop 40% year-over-year, and that's going to affect the sales in the segment. I will say though that the specialty sands are priced on conversion. So when you're talking about income and cash, no different. We don't talk about it much because it's such a small portion of the segment, but when you're off 40% in price in 1 quarter, it had an impact on the top line.

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

Yes, okay. Then I have a question about your comment you made about margin expansion. So your operating margin last year was 14.4%. And what you said is like all of these headwinds that you're managing very well, with all of those cost controls you are putting in place. But in the first quarter, your margins are still down 40 basis points. So when you say, we think 15% operating margin is possible, do you mean that's for the year or maybe in 1 quarter or due to it's like rounded, and maybe you think you're going to get to 14.6%, because 15% is the stretch just given all the headwinds that are out there?

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

No, look, I think, getting this full year up to 15%, starting out at 14.2%, you're right, is going to be a challenge. What I'm saying is that I think we can start to see run rate margins getting back to the 15% by the end of the year kind of on an annualized basis. So I don't want to take the calendar year. But the reason I'm bullish about that is because 14.2% or 14.4%, I think, you mentioned last year comes with a very weak mix of our products. We're selling some -- fortunately, we're selling a lot of good environmental and pet care products, but that mix is a little bit different. We think some of that's temporary.

We see both of those Building Products, which are accretive to the average margins in the segment -- Performance Materials segment coming back in the second quarter. So we think that that's temporary. And without that, base margins in the business year-over-year have grown. Now we're still overcoming continued inflationary pressures. That's going to -- that's making it difficult to get ourselves back to average pricing as we lag. But we're starting to see some of those prices plaining over, and we will catch up. But I've always said we will get back to our pricing, but we've got to get through kind of these inflationary pressures.

The margins in this business back in average pricing and with our mix should be in the 15% range. I think, like I said, 16% is possible over the next couple of years getting back to where we were in '17 with some of these higher-margin products. In addition, it's -- the other thing -- the positive cash to the company, it's these Paper PCC contracts. We always talk about how dollar per ton revenues are a little bit lower because they are in China. So as we grow in Asia, the EBITDA that comes from those contracts is the same.

However, the margins, because of the brand-new capital, when you put in something in Indonesia and lose something in Port Hudson, does affect your margins. Doesn't affect the cash flow, doesn't affect your EBITDA, but it will change your margins a little bit. So there's some of that going on. But nonetheless, even with that and with constant focus on our expenses and costs and I think there is still some room to go there, I'm bullish on getting ourselves back to -- and I want to give you the run rate of 15% into next year, into the end of this year and into next year.

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

Okay. And like a last set of questions for Matt, if I may. I was wondering if you could tell me like what your total D&A was in the quarter, first?

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

Yes. D&A in the quarter was $24.5 million, and I know where you're going with this, Silke. So let me try and answer that string for you. That should continue, so total D&A for the year will be around $95 million to $100 million. From a CapEx perspective, we're looking at about $70 million to $80 million. That's going to be fairly evenly split between sustaining and ROI return type CapEx. And within that sustaining, just note that we also put about $10 million towards Environmental, Health & Safety projects. So continuing to do that as well this year. When you look at the overall cash flow generation for the company, what we've told you before is we're targeting about $150 million.

There are working capital elements that we are working on to get there. You probably saw that working capital in the first quarter was a little bit of a use versus what you've seen previously. We did have, as we told you, the sales ramp up in March. So those sales will be collected in the second quarter, but that was an overhang of about $5 million that moved from the first quarter to the second quarter. So if that was held equal, you would have seen the first quarter this year look pretty equal to last year. And so, as we move through the rest of the year, the opportunities and the growth that Doug was just talking about and how we'll deliver those to the bottom line along with working capital is going to help us grow working capital year-over-year -- sorry, free cash flow year-over-year.

Operator

And our next question will come from Steve Schwartz with First Analysis.

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

I'll echo that thank you from Silke. One question on quarterly D&A took out about four of my questions. But with that, I have still a few more, and these are, I think, relatively simple. So I think you're seeing very nice utilization out of this U.K. expansion. And I'd like to hear a little more about that just the planning for it, what you expected, and how it's come to fruition with sales. And then with Adams, Mass, that's a domestic expansion that's underway, right. So can we expect the same kind of thing?

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

Yes. Let me start off by kind of how we look at expansions in general. Hopefully -- and thanks for the questions, Steve. We look at -- before we make any expansion in the company or add capital to something, we look at OEE, which is overall equipment effectiveness. And it's really a measure that says what are we getting out of that? Have we squeezed everything possible out of the existing asset before we move it? And the OEE is a combination of percent uptime, the productivity to nameplate times the quality off of that thing. And so we will not expand a piece of equipment unless that OEE is up kind of world-class levels in the mid-80s, upper 80s.

And so what we've done over the past years, as demand has increased for products, as we've introduced new products that require capacity, we just have put in Kaizen events, waste reduction opportunities that really look at taking out bottlenecks as much as possible. Then you get to a point where you got to make a step change because demand is going. And then in these 2 cases, in Specialty PCC, I believe, these are the kind of the first expansions. We made some small tweaks over the past couple of years. These are the first expansion at Adams, Massachusetts, and the second one in Lifford or in Birmingham, sorry, England, in the past several years. And we did that through product demand and new products. So let me let D.J. Monagle talk to you about some of that demand and those new products and what's driving at least the requirement for more capacity.

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

Yes. Thanks for the question, Steve. So as Doug mentioned, we've been pretty much sold out. There's 2 things that are going on. First one is we are seeing in general increased demand. And the major drivers on both the auto industry and the building and construction industry is the use of higher technology sealants. And by applying our PCC in those sealants, we're able to help our customers deliver a better product. So in general, we're seeing that demand grow. The other part that we've been working on -- Doug mentioned this aspect of OEE. Another way of saying it is we have been flat sold out and I can't ask the operations group to do a much better job maintaining things. The problem is breaking in to that production cycle to get our new products launched.

And so we've got some new products that are able to even drive our performance higher. So these expansions are letting us do 2 things. First one is address what we're going to see is inherent growth, but even, more importantly, for us, positioning us for future years, address with higher-performing products that will increase our margins and further solidify our leadership positions. So this 6% that Matt mentioned for the quarter, maybe that goes up or down in a given quarter, but for the year, I think that's a reasonable expectation based on what we're seeing right now and the pull that we're getting from these customers.

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

Okay. It's nice to see the expansions like this and the idea that you can simply pull mineral out of ground and place it in a well like this, so...

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

I wish it was that simple. It's a little bit more work than that, Steve, but yes.

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

It's been a long time since I've done chemical engineering, so anyway. But just -- and then just with respect to the environmental projects, I might have asked this in the past, but I want to make sure I have a clear picture of what your pipeline and current project activity is like. What's the average size of a project in that business? And it sounds like when you talk about the Middle East project and how big it is, is there some way that on a public call you can just kind of scale that for us?

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

Yes, The average project -- this is Jon. The average project in our portfolio can range anywhere from $50,000 to $100,000, all the way up to a large project like this, which is a $10 million project. When we look at our portfolio, it's balanced. We have a lot of small projects that we fill our pipeline with, and we execute on day in and day out. And then we also position ourselves very strongly to tackle the bigger projects based on when they come up. So we're always working with potential customers, trying to identify timing and sequencing and where they are in their cycle of installing either a new pond or a new retention basin or a landfill or whatever it may be. So again very, very robust pipeline, active in the markets that we participate in. Always trying to determine what's next, what's coming. And like I said, they can range from pretty small to very large.

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

Yes. Steve, I'd say the average...

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

Okay. So yes, like where it's a $16 million a quarter, I mean that's -- you're talking about maybe 150 projects outside of like a Middle East project. So it's pretty well diversified.

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

Yes, and those projects we'll spend -- the project of that size that's a unique kind of project. Now they are all not all $9 million, $10 million. Let's say, average for a large kind of specialized product is in the $1 million to $2 million. You can see smaller in the hundreds of thousands for a large municipal waste site, which is more commodity-based GCL. So they are -- they do range around. We do have a nice pipeline of, let's say, maybe $1 million or $2 million of the $10 millions but they're out there. They don't happen all the time. We usually get one of those a year, but we've got a good pipeline of the $1 million to $2 million to $3 million ranges, and those are for those specialty projects. That's why -- kind of back to Silke's question, we're seeing, as we move into these higher-margin products, especially away from those kind of what we call commodity GCLs in this product line, we see those margins have improved. And we've seen that improve over the past year. And so that's going to help continue to drive margin expansion across this segment and MTI.

Operator

And our final question will be a follow up from Rosemarie Morbelli.

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

I was just wondering, Doug, you mentioned that the potential from your innovation pipeline was about $600 million, and that you had about 40 to 50 ready to be commercialized. Could you give us the potential of those 40 to 50 and then the timing of when they could generate that?

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

No. I didn't give you that, but I can. I will give you some rough numbers. So last year -- just to give you a perspective, last year, we commercialized about 35 projects -- new products, and the potential of those products were about $100 million. We have about 40 -- as I mentioned, 40 to 50 in the pipeline. I don't think all of those will be commercialized this year. I would say of the ones we'll commercialize this year, we see right now there may be a couple more or less, but probably in the $70 million to $90 million range of potential value that could come out this year, so at a similar pace to last year.

I will highlight that though it had a similar pace, we're moving products out of the pipeline faster. 2018 over 2016, I think, we moved -- and by the way, that's an annualized value. I'm getting signals here that that's not all going to happen this year. Rosemarie. That's at a full potential annualized rate, the $70 million to $90 million. So we're moving things through our pipeline 20% faster than we were. And so our thought is we focus in on the projects with the strongest customer pull. We move them fast. We fail fast, and then we get them commercialized, and then we repeat. And so moving that innovation engine and getting those $70 to $100 million of annualized opportunity out faster is what's driving some of our revenue growth over the past 4 quarters, 5 quarters. So those are the kind of numbers that we think we see this year.

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

Okay. And when we are talking, I know they were having a heart attack there. But when you are talking about the $70 million potential annualized, do we start out with something like $5 million in 1 year, and how long before it gets to that full potential?

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

Yes. Our products -- some of our products ramp up very quickly. I guess, it's hard to characterize one product. We've had -- I think we look at some of these things as a potential over 5 years to generate sales over a 5-year period. So every year, we're launching products that, I'll give you numbers, that has a potential value of $100 million over 5 years. But you keep doing that and you move that faster, and that's what we think yields that type of run rate every year. We have been -- we're moving up that speed curve and up that value curve over the past 2 years. That's what I'm trying to draw a picture of.

So over some product, like I said, some of our new sealant products that we're just launching now have been developed with customers, I mean the Thixo-Carb -- these have been probably 3 years in kind of product testing. Especially with automotive, it takes a long time to get things qualified on new build. So some are very quick. Our new high-filler technology that I just mentioned was developed over probably the past 2 years, and we took several trials. We think that one could ramp up quicker because it's an add-on to an existing known technology. So some very quickly and some take a little bit longer depending on the market.

Operator

At this time, I'd like to turn the call back to Ms. Buckwalter for any closing remarks.

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

Thank you, Savannah, and thank you, all, for joining us today. We look forward to speaking with you again soon. Have a great day.
