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CORPORATE PARTICIPANTS

Lydia Kopylova *Minerals Technologies Inc - Investor Relations*

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

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

Brett Argirakis *Minerals Technologies Inc - Group President, Performance Materials and Refractories*

CONFERENCE CALL PARTICIPANTS

Daniel Moore *CJS Securities - Analyst*

Michael Harrison *Seaport Global Securities LLC - Analyst*

David Silver *C.L. King & Associates - Analyst*

Pete Osterland *Truist Securities - Analyst*

PRESENTATION

Operator

Good morning, and welcome to the Minerals Technologies first-quarter 2025 earnings conference call. (Operator Instructions) Please note, this event is being recorded.

I would now like to turn the conference over to Lydia Kopylova, Head of Investor Relations. Please go ahead.

Lydia Kopylova - *Minerals Technologies Inc - Investor Relations*

Thank you, Gary, and good morning, everyone, and welcome to our first-quarter 2025 earnings conference call. Today's call will be led by Chairman and Chief Executive Officer, 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 this slide. Our SEC filings disclose certain risks and uncertainties, which may cause our actual results to differ materially from these forward-looking statements.

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

Thanks, Lydia. Good morning, everyone, and thanks for joining today. First, a quick overview of what we'll be discussing on today's call, and we have a lot to cover. I'll begin by reviewing our first-quarter results, give you some insight into what transpired with customers and markets throughout the quarter.

I then want to review items from the press release we issued last week, including the Chapter 11 case of our subsidiary BMI OldCo and the cost savings program we initiated. I'll give you an update on what we're currently seeing in each of our businesses and major markets, and I also want to share my view on how MTI is well positioned with our global footprint, portfolio of value-added products, and deep innovation pipeline to continue to generate profitable long-term growth despite the current market uncertainties. Erik will then take you through the detailed financials and provide an outlook for the second quarter. And then we'll open it for questions.

Let me start with our Q1 numbers. As you can see from this slide, we had a challenging quarter, especially compared to the strong first quarter we delivered last year. As we indicated on our last earnings call, we had a very slow start in January but expected that our normal seasonal order volume would pick up as we move through the quarter. This did not happen. After the first wave of tariff uncertainty that was introduced into the markets, the lower volumes we saw in January continued into February.

Across both of our segments, we saw customer order volume reductions, orders shift out of the first and into the second quarter. And we were also notified of extended downtime at several of our customers' facilities. We typically see our order books trend upward as we move from December and through the first quarter months due to the seasonality of some of our end markets. To give you a sense of what happened this quarter, our January run rate of sales dropped 7 % from the fourth-quarter average. And February's rate, which is typically stronger than January, also continued below the fourth quarter rate.

In conversations with our customers, it was confirmed that the volume reduction was due to three different but related items: inventory adjustments in anticipation of continued economic uncertainty, a wait-and-see approach by customers who are now subject to tariffs on their end products, and a reduction by many of our retail customers in their consumer demand outlook. At the beginning of March, our order patterns and volumes shifted, and we saw an uptick in volumes across most of the company.

The average daily rate of sales in March was 10% higher than in January and rose to a full-quarter rate that was 5% above our initial guidance for the quarter. This rapid change in order patterns gave us the sense that we had hit the low end of many of our customers' inventory levels. Despite the improvement in volumes in March, we took steps to position ourselves for potentially more challenging times ahead. We identified $10 million in cost savings that we're currently acting upon, targeted at efficiency improvements at our facilities and general reductions in overhead and back office services.

We're not targeting reductions at aspects of the company that would affect our ability to achieve our growth objectives and strategy. I feel that these are prudent moves to position the company to maintain our strong financial position in uncertain times while at the same time preserving our ability to execute on our growth objectives.

I also want to take a moment to discuss the update we provided in last week's press release on the Chapter 11 case of our subsidiary BMI OldCo. As you saw in the release, we recorded a provision to establish a reserve of $215 million for estimated costs to fund the trust to resolve all current and future talc-related claims as well as to continue to fund the Chapter 11 case and related litigation costs. Though we've not yet reached a final resolution of all matters in the case, we remain confident that BMI OldCo's path to resolving these liabilities certainly and fairly through the Chapter 11 process. Further, we believe this reserve is appropriate to cover the anticipated financial impact of talc-related claims and that it will provide added certainty to all stakeholders. I cannot give any estimates of when the case will be concluded other than to say it is a structured process and that we are looking to move forward both prudently and expeditiously.

So in summary, this is a busy quarter for MTI and one that I will cautiously characterize as a bit of an anomaly. Our markets changed rapidly, and we reacted quickly by making the necessary adjustments. Now let me give you some deeper insights into the market dynamics in each of our product lines and what we're currently seeing in the second quarter.

First of all, we need to acknowledge the uncertain conditions that are affecting all industries, ours included. The seasonal cycles that typically drive portions of our business at this time of year are being disrupted as customers reconsider consumer behavior, purchasing patterns, and overall business confidence as a result of changing tariff structures. Though we are seeing a stronger second quarter, it's apparent that there remains a significant amount of uncertainty in the markets and with our customers. As such, our forecast for the second quarter encompasses a range of outcomes based on how our customers continue to react to the changing economic landscape.

So let me give you a bit more detail on changes we saw in the first quarter and provide some context on how the current environment is affecting our individual business segments. Let's start with the Consumer & Specialties business segment which comprises our Household & Personal Care and Specialty Additives product lines.

As we mentioned during our Q4 earnings call, at the beginning of the year, we observed broad-based customer order pattern shifts in this segment. Automotive sealant customers that purchase our specialty PCC products paused orders as they waited for more clarity on tariffs. Others, like our fabric care customers, shifted their orders into Q2 and Q3 to reduce inventory levels. In both North America and Europe, we saw order levels drop from several of our pet litter customers, as they took a more conservative approach to their inventories. And several of our paper and packaging customers took extended outages in both North and South America.

In early March, we started to see a normalization of order patterns and a revision to higher order volumes. This trend has continued, and we're seeing more steady order patterns in cat litter and continued strong order volume in other product lines including animal health and bleaching earth for edible oils and renewable fuel purification. Our automotive sealant customers resumed orders, and we commissioned two new PCC satellites early in the year which ramped up production. Further out, we have three additional ones under construction that will come online on schedule later this year, adding to our improved outlook.

In our Engineered Solutions segment, we saw the same overall slowdowns we experienced in our Consumer & Specialties segment, but primarily in the High-Temperature Technologies product line. Softer steel market conditions in North America compared to last year and continued slow steel market conditions in Europe persisted throughout the quarter. The North America foundry market remained relatively stable from the fourth quarter. Our China foundry business had a strong quarter, some of which was due to higher levels of export production in advance of tariffs being implemented.

One bright spot this quarter is that we had a solid start to the year for our Environmental lining systems and Building Products. We are seeing a steady uptick in these projects after a prolonged downturn and have also secured some exciting wins for FLUORO-SORB in the PFAS remediation space. Looking forward, we see improved refractory order volumes primarily due to a restocking trend in the European and Middle East steel markets. We also expect to see general stability in the North America foundry market, further stabilization in environmental and building materials applications, and continued growth in our PFAS remediation solution.

It's difficult at this point to give you a solid outlook for the remainder of the year given that a significant downturn in the US economy is possibly ahead of us. But I also see several market fundamentals and opportunities that could play out positively for us as well. Given our leading positions in multiple markets and geographies around the world, we're well positioned to capture shifting volume from one region to another as the impact of the tariff picture becomes clear.

Overall, and despite the challenges that emerged during the quarter, we remain confident in and committed to the long-term growth targets we set for ourselves. The components of our long-term strategy, which include further penetration into our core markets, sales growth of higher margin consumer-oriented products, and driving higher levels of innovation and new product development remain intact. These strategies are targeted at secular and sustainable trends with value propositions that can become even more valuable in challenging economic times. Products like NewYield PCC, Scantrol laser systems, high-durability refractories, and engineered foundry blends are targeted at driving efficiency cost savings for our customers, no matter the economic context.

Our water filtration technologies, which solve challenging issues like PFAS remediation, and our adsorptive technologies which aid in the production of consumer food oils, renewable fuels, and animal health address challenges that provide long-term growth pathways unaffected by the current economic issues. We'll also continue to carefully consider where we should make operational and cost adjustments, and we're prepared to act fast to implement further changes if needed. And I believe we have the right team in place to do so across the organization. We have a strong operating culture based on operational excellence principles, which enables us to adapt quickly in times of change.

In summary, I feel we're well positioned to navigate any uncertainty ahead. We have an agile team, a strong foundation, and a robust long-term strategy. The strength of our balance sheet provides us with the security to navigate any near-term challenge and the flexibility to take advantage of opportunities when they present themselves.

Now let me let Erik take you through some more details of our financials as well as our second-quarter outlook. Erik?

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

Thanks, Doug, and good morning, everyone. I'll start by providing an overview of our first-quarter results, followed by some detail on the performance of our segments. And I'll wrap up with our outlook for the second quarter. Now let's review our first-quarter results.

The first quarter started unusually slow from a customer order perspective. Doug noted the reasons in his remarks, including shifting order patterns and de-stocking by certain customers, which lasted longer than we expected. Overall, first-quarter sales were $492 million. You can see in the year-over-year sales bridge on the top left that sales were 8% lower, primarily driven by lower volumes and unfavorable mix in addition to unfavorable foreign exchange. And in the sequential quarter bridge on the top right of this slide, you can see that sales were 5% lower than the fourth quarter.

We saw the most significant shifts in order patterns in Consumer & Specialties, which impacted sales across the segment. And in the Engineered Solutions segment, we saw a continuation of the softer demand conditions in some of our industrial end markets from the second half of last year.

Moving to operating income, you can see from the year-over-year bridge on the bottom left that the volume and mix impacts translated to a $12 million reduction in operating income from prior year. Higher selling prices of $5 million helped to offset $5 million in cost increases. Our operating costs increased temporarily in the quarter, primarily in the Consumer and Specialties segment, as our operations adjusted production with the rapid shift we saw in customer order patterns. In the sequential operating income bridge on the bottom right, you can see that we mostly offset the impact of higher costs, including higher input costs such as energy with additional pricing. However, there was a portion of higher costs related to operational efficiency that we were not able to offset in the quarter.

Altogether, operating income was $63 million. Operating margin was 12.9 % of sales and was impacted by the temporary cost impacts in Consumer & Specialties in the quarter. First-quarter earnings per share excluding special items was $1.14. We recorded several special items in the quarter, including the $215 million provision for BMI OldCo that Doug described earlier.

We also recorded a $5.5 million charge for severance-related costs associated with our new cost savings program. This program will accelerate efficiencies we've identified across the organization, and we expect it to generate $10 million of annual savings at a full run rate by early 2026.

Now let's turn to a review of our segments, beginning with Consumer and Specialties. First-quarter sales in the Consumer and Specialties segment were $268 million. Sales were adversely affected by changes in customer order patterns, as customers cautiously managed their inventories amid shifting tariff policies and mixed economic signals, including cautious views on consumer spending and sentiment. In the charts on the slide, we're providing a sequential perspective for sales and operating income, including our outlook for the second quarter to give you a better sense of the current dynamics we are seeing in our segments.

Sales were 4% lower sequentially. The shifts we saw in order patterns impacted sales of cat litter and fabric care in the Household & Personal Care product line. And in Specialty Additives, we saw order pattern changes for our specialty PCC products going into automotive sealants. We also experienced an unusually high level of customer maintenance downtime at several paper and packaging sites. Despite these impacts, we continue to see some positive trends in both product lines.

In Household & Personal Care, edible oil and renewable fuel purification remained on its growth track, with sales up 6% from prior year. And in Specialty Additives, we continue to see sales growth for ground calcium carbonate up 6% as demand for our products serving the residential construction market has remained resilient in the southwest and northeast regions of the US, which are the two main regions we supply. Operating income for the segment was $30 million.

Lower volumes were the largest contributor to the reduction in operating income, which impacted not only the top line, but also contributed to temporarily higher operating costs due to unfavorable productivity and fixed cost absorption. Overall, for the segment, we expect sales to increase approximately 3% to 6% sequentially in the second quarter. We expect improvements in both product lines driven by a return to more normalized order patterns as well as the transition into the seasonally higher period for residential construction. We expect operating income to improve to between $35 million and $38 million, driven by higher sales as well as improved mix and overall productivity.

Now let's turn to a review of the Engineered Solutions segment. First-quarter sales in the Engineered Solutions segment were $224 million. Again, we're providing a sequential perspective in the charts on the slide, including our outlook for the second quarter. For High-Temperature Technologies, we've seen mostly stable market conditions for foundry and steel customers in North America, although still softer than last year due to lower demand for castings into the agricultural equipment market and the continuation of the softer steel market conditions from the fourth quarter. And demand from steel customers in the Europe region was significantly lower than last year, driven primarily by customer de-stocking activity.

Meanwhile, in Asia, foundry volumes grew 9% from last year, led by increases in China and India. It's likely that some demand was pulled forward in Asia ahead of tariffs, and we've adjusted our forecast for the second quarter as a result. In Environmental & Infrastructure, we're seeing continued stability in large scale project activity for commercial construction, and our sales into that market are holding steady with last year. One highlight to note is that sales of our environmental lining applications were up 19% versus last year.

Sales of FLUORO-SORB were also up significantly, driven by a large trial project for a promising municipal drinking water application, which is both scalable and a potential recurring revenue stream. Offsetting this positivity was the timing of projects in offshore water filtration and services including some project delays which resulted in overall sales for the product line below prior year. We expect sales to rebound from these delays in the second quarter.

Operating income for the segment was $34 million, and operating margin was 15.4 % of sales. Looking ahead to the second quarter, we're expecting sales to increase by approximately 10% to 15% sequentially. In our High-Temperature Technologies product line, we see modest improvement in Europe as de-stocking activities run their course. And we expect North American volumes to remain similar to the first quarter.

In Asia, we expect our growth trends to moderate temporarily with volumes similar to last year as foundry customers adjust to tariff impacts on their end markets. We estimate that only a small portion of our foundry customers' products are exported to the US. However, we are expecting some disruptions to production levels as customers adapt to the new dynamics.

And in the Environmental & Infrastructure product line, we expect higher sales as we enter the seasonal peak periods for large-scale project activities. Operating income for the segment is expected to increase to between $40 million and $42 million, driven primarily by higher sales levels. Now let me turn to a summary of our balance sheet and cash flow highlights.

Let me start by reminding you that our cash flow is always lowest in the first quarter and it builds through the year. Our cash flow this first quarter was lower than usual due to an increase in working capital relative to prior periods. The slower order volume in the first quarter contributed to slower inventory turnover overall. In addition, we're adding to some strategic inventory positions for key raw materials.

Overall, inventory contributed to $27 million or 2/3 of the increase in working capital versus last year. Our working capital was also temporarily impacted by the timing of receipts, simply because our quarter ended on March 30th, and the last day of the month is typically a big day for receipts. We expect free cash flow to improve in the second quarter and through the second half of the year as these working capital impacts unwind. As usual, we expect the second half of the year to be much stronger than the first half of the year from a cash flow perspective.

First-quarter capital expenditures were $18 million, and we returned $15 million to shareholders in the quarter through share repurchases and dividends. Our balance sheet is very solid with nearly $700 million of liquidity and a net leverage ratio of 1.7 times EBITDA. I'll also point out that after refinancing our debt last year, we're in a very strong position from a debt maturity perspective, with no significant maturities until 2028 and 2031.

Now I'll summarize our outlook for the second quarter. As you can imagine, it's a bit challenging to provide guidance this quarter given the significant uncertainty surrounding tariff policies and potential impacts on our customers and end markets. However, as you've heard, we saw an uptick in sales in March, and that has continued into April. Our sales guidance on this page is based on a couple of scenarios for the second quarter that could play out from here.

First, the low end of the range assumes our March sales run rate of approximately $520 million continues at the same levels throughout the second quarter. Given the seasonal uptick we expect in construction markets, this low case assumes a more challenging macro backdrop offsets favorable seasonality. The high end of our range of $535 million assumes continued normalization of order patterns in May and June in addition to the seasonal improvement. This high end does not reflect a complete return to normal.

It reflects continued improvement in May and June, but it's still below what we would expect under stable market conditions. At the midpoint of our sales range, we expect operating income of around $75 million and EPS of around $1.40. Where we land in the sales range will determine the upside or downside to our income guidance.

In any case, we expect our margin to improve significantly in the second quarter driven by improved volumes and operating costs. Overall, we're expecting a much stronger second quarter, with sales 5% to 10% higher than the first quarter and operating income around 20% higher sequentially.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We will now begin the question-and-answer session. Our first question is from Daniel Moore with CJS Securities. Please go ahead.

Daniel Moore - *CJS Securities - Analyst*

Start with talc litigation and then get into the business and the outlook, but regarding the reserve, just talk a little bit about the recent progress you've made in arbitration to the extent that you can and what gives you confidence in putting a number out at this stage around the expected costs or liabilities.

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

Sure, yeah. As you know, we've been in mediation for a while. A lot of progress was made in the first quarter of this year. And given with some of the progress that we've made, plus last week, and some of the hearings, we've gotten to a point where we can make a good estimate of what we think the potential funding of the trust and also the ongoing litigation costs for BMI OldCo and SMI will be. So that's what that's based on - progress this quarter - and wanted to make sure that that was out there now.

We feel that that gives some kind of understanding and some clarity around where this process is headed. It's not done yet, Dan, as I mentioned in my remarks. We still have not concluded this, but we're confident that moving through the Chapter 11 process will get us to a final resolution.

Daniel Moore - *CJS Securities - Analyst*

Really helpful. And is there any way to think about a range of sort of maybe cash impact as we think about 2025?

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

Too early to estimate that right now.

Daniel Moore - *CJS Securities - Analyst*

Understood. And maybe just talk about, it's an incredibly dynamic environment, clearly, but your revised expectations or just thought process around organic top line growth this year. Given the slower expected start of the year and all the macro tariff impacts, is there a range we could think about or contemplate, just given the increased uncertainty? Previously, it was a mid-single-digit growth goal, but how do you kind of think about a confidence interval?

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

Yeah, it's really hard to give you a range of outcomes. I mean, it's almost on the lines of what Erik gave you in terms of the second-quarter guidance. There's kind of two scenarios, right?

We see through the second quarter, which we see is a much more positive one than the first, things slowdown further into the third-- in the back half of the year, based on kind of macroeconomic issues -- we end up in a recession. That's one scenario that I can't predict how deep that would be or what that would look like for our sales, but I think our sales are relatively resilient through slowdowns, and you can look in the past and how that's worked out.

The other side of it would be that, we hit the slowdown, but things become clearer. Obviously I'm reiterating all the things you probably know, but things become clearer. I do see that there's a base demand picture out there that seems relatively stable. What you saw in the first quarter was quite a bit of order pattern shifting, but as we've seen that, it picked up in March -- we think that there is that base demand out there, at least through the second where that inventory restocking happened, and that happened in multiple geographies.

So if that continues, then I think we actually are on track for kind of maybe the low end of that range that I gave you in the first quarter; low-single-digits. That's a guess right now, Dan, but if there's a base demand and some uncertainties clear and the order patterns continue to straighten up, I think the back half of the year could be relatively solid. I mentioned in my remarks that there's some positive things that are out there, our product lines that are into water remediation,

Let me go back in some of my comments. I think regardless of where base sales end up, the company is really well positioned through the products that we have in our pipeline into some of the secular trends. We're into environmental water remediation. We're into consumer products that continue to grow.

I think that those continue through whatever kind of economic dip or non-dip that we're in in the back half of the year. I think those continue to play out to growth. The net net of that could be flat, could be up slightly. It's too hard to call right now, Dan, but I think the fundamentals of the company and the positions that we're in globally, the product lines that we're in and how we're moving them towards secular trends, they all hold out, and they're going to hold for the long term.

So I think we're -- that's why I gave you the comments where I think we're really positive about our growth trajectory despite what's going to happen in the near term next couple of quarters.

Daniel Moore - *CJS Securities - Analyst*

No, that's really helpful. Maybe just talk a little bit about the cadence of the cost savings you expect to achieve over the next several years as we ramp to that $10 million by early 26, and is all of that earmarked for margin improvement, or is there some that you might consider reinvesting?

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

Yeah, thanks, Dan. This is Erik. So that savings is going to start ramping up more meaningfully in the third quarter and continue through the first quarter of next year. I would say that that's going to be accretive to margins. I think just touching on margins for a minute, it's going to depend on how the demand picture plays out for the rest of the year. But I think -- I do want to point out that the company is still set up for that 15% kind of target margins, and I think we can get there sort of one of two ways this year.

One is going to be obviously through volume. I think the difference between what you're seeing as guide in the second quarter -- of the midpoint of our guide representing around 14.3% margins, the difference between that and the 15% target is mostly volume, fixed cost leverage. And so we get that volume to come back, we get to the 15%. If we don't see the volume coming back, I think the cost savings program helps us get there.

Daniel Moore - *CJS Securities - Analyst*

Really helpful and then last one just as it relates to the guide and you mentioned the midpoint, so just making sure I see it or understand it correctly. You've got a range, a $15 million dollar range on the top line. And then the operating income and EPS is sort of a data point. So are those -- is that kind of assume the midpoint of the top line? How do we think about potential ranges around I guess, call it, $1.40 of EPS? Is it the top end of revenue? Is that higher? Just help me out.

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

Yes, that's exactly right. Those point estimates on the income side are the midpoint of the sales range.

Operator

The next question is from Mike Harrison with Seaport Research Partners. Please go ahead.

Michael Harrison - *Seaport Global Securities LLC - Analyst*

Was hoping that maybe we could dig in a little bit further on operating margin. I understand that in the first quarter of this year-over-year decline about 150 basis points was related primarily to volume leverage, maybe some elevated cost, but if you could give any additional color on what you had going on with costs in the first quarter, that would be helpful.

But then you're also guiding to about 150-basis-point year-over-year decline for Q2. And so what I really would like to get at is, for the full-year 2025 operating margin, are we on track to be down 100 to 150 basis points. Do you see things right now, or do you expect meaningful improvement in the second half to maybe get us somewhere closer to 15% for the full year?

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

This is Erik. I'll try and take your questions in sequence. So for the first quarter, yeah, we did have some cost issues. I think if you look at our bridges, the sales and operating income bridges that we gave, the volume mix kind of combined impact equates to a decremental margin in the 30% range, which is what we typically expect for the company. So I'm going to attribute a lot of that reduction to volume.

But I will say that on the cost side, within that cost bucket, we were facing a few increases. Energy is one. Energy was in the $2 million to $3 million higher on a Q1-over-Q1 basis. That's looking a little better for the second quarter, I'd say. Still, at this point, slightly unfavorable versus last year, but the energy situation is looking a little bit better.

We're also watching transportation costs. Overall logistics costs were about $1 million unfavorable in the first quarter. We're seeing slightly higher costs for the second quarter, mainly for truck and rail.

The other piece, just to point out, is around tariffs. It's a much smaller impact. I think we put the picture in front of folks last quarter that we have a relatively direct cost impact from tariffs just because we're primarily sourcing and selling locally. But if I had to put a dollar number on it, the first quarter was about a $300,000 impact on tariffs, the second quarter probably about $1 million. We have ways of mitigating that, and we'll likely offset most of that, but there's some timing elements to passing that through and alternate sourcing and things like that. But that's another cost element that we're watching.

I would point out, you mentioned the year-over-year comparison. I would point out that last year's second quarter, the 15.7% margin that we put up had several high-margin refractory equipment sales in it that we called out in the quarter. So that was a really strong result last year, what makes for a difficult comp year over year.

I think the main difference between what we're guiding to for the second quarter and where we were last year is the volume. So as far as where we can end up for the full year, I sort of alluded to this for the previous question, but assuming markets are relatively stable, we can get to the 15% margin just from the volume leverage as we move through the year.

I would point out that we have other things helping us get the margins higher, which would be that cost savings program starting to ramp up in the third quarter. So the combination of volume plus the cost savings program could move us above the 15% margin on a run rate basis. So we're going to have to see how it plays out from a demand perspective for the rest of the year.

Michael Harrison - *Seaport Global Securities LLC - Analyst*

Yes, understood. That's a good color there. Maybe just to follow up on the tariffs' impact. I think of magnesium oxide as being a key raw material for refractories, and in the past, at least, a lot of that was coming from China. As far as I can tell, it's not on the list of excluded materials or chemicals to be excluded from the tariffs.

What are your expectations on how tariff policies could impact MgO? And is that one of the materials that you guys are kind of stocking up inventories right now in preparation for a potential impact?

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

Yeah, so magnesium oxide is something that we do buy from a number of sources. We also buy and produce it ourselves in Europe. So yes, but China is one of the locations we do buy that from, Mike. Right now, the tariff, it's not excluded, it's a 20% tariff on magnesium oxide from China, which is part of what we see as a full year kind of tariff impact.

We have been buying and building it -- that is part of the piece that we've been building inventories for a number of reasons. One, ahead of some of the tariff structures, but also because at this time of year -- you saw a lot of rain in the Midwest, and there's some river closures, the Mississippi River. We move things through barge up the river, so we make sure that we are in good position for any disruption that might occur.

But this year, we bought a little bit more ahead of time here in Q1. Right now, I think we have inventories that are well into the third and fourth quarter, so we're well protected from that. And we also have a diverse magnesium oxide base that we can tap into. So hopefully that answered both your questions.

Michael Harrison - *Seaport Global Securities LLC - Analyst*

No, that's helpful. And then over on the consumer side, this is kind of the fourth quarter in a row where that Household & Personal Care business is showing growth well below your expectation. If you guys hope to get the whole company up to a mid-single-digit type of growth rate, HPC is what needs to be one of the key drivers. What needs to happen in order to get this business back on track and maybe help us understand a little bit better why we're seeing so much volatility in a consumer-driven business that we would expect to be more stable?

I mean, part of the reason you guys have worked to expand this business is that you expected it to provide more of a resilient or defensive type of demand pattern, and it doesn't seem like that has been the case for some reason.

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

Yeah, and look, I share your -- the optics of it over the past few quarters, Mike, so I understand where you are. I'm not going to go as far to say that it's something that's off track. I'm not going to say that the thesis around our cat litter business and our positions and how we've built it and its potential is off track. I think I agree with you on a quarter-to-quarter basis, we've been a little bit frustrated by some of the things that have happened with the branded products and discounting that happened last year and this quarter.

You're going to think that I'm giving you an excuse. A number of our customers' order patterns shifted around, but that's what happened. I think we saw a bit of a mix though this quarter. We saw some real strong demand from large retailers in the US, and that was offset by shifting patterns by some specialty outlets and grocers in the US. I would say the biggest piece was probably the large retailers in Europe pulled back and managed inventories in the first quarter.

But then I'm going to tell you that our current order pattern, going into the second quarter, if it continues at this pace, and there is some -- could be some volatility, is going to grow at about 8%, 9% sequentially, and that's going to put us at about 5% over last year, so right on the mid-single digits.

So there has been some volatility in the pet litter market. I will tell you that the growth rate of the category itself has been lower this past year, '24 and into '25, than it was in the previous two. I think the category is growing at about 1%, and so there has been some shifting around between brand and private label. But I think the confidence we have in private label, especially in times of kind of challenging economics, I think that's going to show through, and I think we're starting to see the order patterns this quarter into the second that give you that kind of growth rate. So we'll have to show that to you, but I don't find that there's a fundamental flaw with the category or our growth thesis around it for the long term.

Only one thing I'll add to that is also that we're expanding our business in Asia, and that has growth rates and is showing growth rates that are much higher than the average you're seeing in North America, which is a more mature market. And I think as that comes online, which is what we had shown in terms of our global footprint of pet care, that's also going to be accretive, and you're going to start to see that growth. So a couple of short-term things that have moved around on us, but I don't think that that changes my outlook that says this is going to be a great business and is a great business for the company.

Operator

The next question is from David Silver with C.L. King. Please go ahead.

David Silver - *C.L. King & Associates - Analyst*

Yeah, hi, thank you. Sorry. So I have -- fair warning, I have kind of a wordy question to start out with, but I'd like to kind of come at the tariff situation maybe from a slightly different angle. I mean, the companies I speak to, and I'm pretty sure you would agree, but the direct impacts of the tariffs, I think, from your management team and everything are very well understood. But the greatest uncertainty relates to, customer reactions, customer behavior, as you pointed out in the first part of the quarter.

Looking at your business and in particular maybe your R&D or your collaborative activities with key customers. I mean, would you say that, maybe since the beginning of the year or since April 2nd, I mean, has there been a shift in their attitudes towards working on kind of the next-generation, new product developments or applications. So if DJ's team is pitching for the next satellite plant in Asia, are they still taking the meetings?

Or if Brett's team is doing the same with the laser measurement equipment plus the refractories, those types of longer term contracts, are your development activities in those areas still moving forward at the same pace? Are customers stepping aside? Are you stretching out your timelines? Just maybe a thought on the effect of the tariffs on your longer term -- medium to longer term development activities.

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

Yeah. Hi, David. No, I don't think that that's the case at all. I think that the tariffs are not having any impact on that. I think that the one area I do see, and I mentioned in my remarks, that tariffs do have an impact is just in general demand and where that production. The uncertainty that it's created in terms of where customers are going to make things or how much demand there will be for where they're making them today.

One thing I will tell you that I think the company in our global footprint is positioned to pick that up wherever it goes, right? We've seen that before with tariffs and steel in 2018, where increased production came to the United States, and we were right there to pick that up and be able to deliver our refractory products. As a matter of fact, a couple of new facilities were built from 2018 till now. There's another one even scheduled here in the United States. And we're confident that we're going to get that business.

And we've also seen that in the foundry where if something is moved from China to here or here to China, we've been able to pick that up because it's our technology. Conversations with customers have not changed. You mentioned, looking at paper and packaging satellites and the newest technologies around NewYield or our packaging, are still ongoing, still interested.

Our Scantrol laser measurement system is still on track, still interested. And the reasons for that are because they save our customers money. They're more efficient. They're safer ways. They're higher tech ways to make their products through a collaboration with them.

And I think, and we're seeing that that's probably going to be even more in demand now than it was before. So those -- I don't think that's going to stop anything or change anything in terms of those types of high value products that we deliver to customers, at least we haven't seen it yet and we don't expect it to.

The other area would be areas of kind of longer term growth that we're targeting in environmental and water remediation and things that are tied to kind of long, steady growth pattern, steady growth trajectories like edible oil, renewable fuels, animal health. These are going to transcend kind of economic activity, economic ups and downs, because I believe that they are kind of fundamental shifts in what our customers want, and we're providing those products.

Like I said, I think with our portfolio of products currently out there targeted at these kind of secular growth trends and at cost savings and value added applications for our customers, I think they're going to continue to go as they have in the past. And we've got a pipeline of hundreds of new products behind that that are targeted at similar things. And so long term, I don't see that these short-term issues that we're looking at are going to affect the company's long term growth prospects.

David Silver - *C.L. King & Associates - Analyst*

Question about PFAS. Okay, so I did notice in your slide deck, you did call out the new larger drinking water project, but maybe just a couple of things. But firstly, it is about -- well, we are anniversarying -- it's the anniversary, I guess, of the EPA decision to set particular limits on PFAS content in drinking water. And I know that there's a three-year or more timeline for the average customer to make a decision on -- or, yeah, to make a decision on a treatment plan.

But it has been a while, I think, since the company updated like that figure. I think it was about 200 pilot plants or sampling or beta projects and that type of interaction. So firstly, I mean, in the year since the EPA did set the content limits. Has the number of pilot plants and beta tests and whatnot meaningfully increased?

And then secondly, if you could maybe just update us on the significant contract win with the Northeast, I believe, a drinking water facility.

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

Sure, David. Yes, the pipeline continues to be very strong and not only in North America but also in Europe, as we're seeing opportunities for PFAS remediation on that continent. So the pipeline continues to be strong. I believe we're running into 100 different trials. We've commercialized in five or six drinking water facilities.

So the pipeline continues to be there. The demand and the interest in it. You're right, the EPA standards don't go in until 2029, and so we always knew that this would build as customers, both drinking water customers and also in remediation, they continue to trial different technologies, ours being one of them and ours being one of the most cost effective and technologically effective.

So yeah, the pipeline is strong. We're still doing a lot of trials, and let me let Brett Argirakis take you through kind of some of the current activity.

Brett Argirakis - *Minerals Technologies Inc - Group President, Performance Materials and Refractories*

Sure. Hi David. As Doug said, yeah, our FLUORO-SORB product really continues to generate a high level of interest both from the state, local, and federal levels. This quarter, we had about 15 new projects varying in size and scope, and as Erik mentioned in the remarks, we had that large project in the northeast. These projects really vary in size and scope, so they go from small to mid-size drinking water, wastewater in situ, remediation projects, and they've represented over a 200% increase from the last year, first quarter.

So we're pretty excited about it. And as Doug just mentioned, we have six full scale drinking water systems utilizing our FLUORO-SORB. Four additional are coming on, full scale drinking water systems, by the end of the year. So the activity is really starting to move in the right direction.

Internationally as well, our FLUORO-SORB opportunities continue to gain traction, especially in Europe in several countries. So we're focusing not only on the drinking water but focusing on the other areas: landfill leachate, wastewater treatment, soil and groundwater. So it's pretty fun time for us to grow this.

Let me give you a little bit of information about the project in the northeast. The drinking water project that Erik mentioned, it's a large scale municipality that's going to be commissioned, installed and commissioned, this month. It's really unique because it's really large scale. If you can picture a large scale swimming pool, but they're reactors. It's not vessels filled with FLUORO-SORB, it's large reactors. And that project is going to remove not only PFAS but other contaminants in the drinking water.

These reactors are also standalone systems where they're not using other systems like DAC and ion exchange within it. So we're really excited about the project and the size and scale and the scope because this represents about 1/10 of the scope of this project. So we're hoping and very confident that the success of this project is going to expand, and we'll be moving forward. And it'll help us to move our FLUORO-SORB project forward.

David Silver - *C.L. King & Associates - Analyst*

Last one for me, but maybe this is a question tilted towards DJ, but more China focused. But since early April, I am wondering if you have detected any, I don't know, loss of competitiveness or any kind of change in the competitive environment for your PCC and your foundry activities in Asia in general, but I guess in China in particular. In other words, is there a blemish or is there a preference to do business with a company that isn't in America as in US-based in the current environment?

In other words, are they giving more business maybe to your PCC competitors or someone from another -- based in another country?

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

No, David. We haven't seen that at all. As a matter of fact, we've also been in negotiations and have won another contract in China just recently. And we're also seeing that in the foundry market. Our customers very much value the blends and the technology that we bring them in the foundry, and we've seen some increased interest and demand to convert to a blended system because of the savings and the productivity that it brings.

In terms of PCC, we are the leader in technology around the world. We have a broad-based platform to offer them over the life of our partnership. So it's not just the PCC and the crystal and how we can adapt that. It's NewYield, it's savings, it's how they make their paper, it's efficiencies, it's breakage. It's all sorts of different things that we bring them over the lifespan. It's high filler technologies.

I think that transcends. When you're a company, China or otherwise, that transcends where it's from. They want the highest value, they want the best, the most reliable. And that's what we're seeing, and I don't expect that to change.

Operator

The next question comes from Pete Osterland with Truist Securities. Please go ahead.

Pete Osterland - *Truist Securities - Analyst*

So based on the customer conversations and order patterns you've seen in March and April, have there been any signs that any of the sequential demand pickup you're expecting for the second quarter is partially related to pre-buying ahead of tariffs being implemented? And I guess, if so, could you try to size that and talk about where it's concentrated within the portfolio?

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

Yeah. Hi, Peter. This is Erik. So we did see some pre-buying in the first quarter in Asia in the foundry business, not a huge amount. I think probably $1 million dollars of revenue overall we thought was pulled forward into March ahead of some tariffs going in there that would have affected some customers.

But on the other side, we had instances of customers holding off related to tariffs. We pointed to some of the customers serving the automotive end market, sort of Tier 2, Tier 3 suppliers to the automotive market being really cautious around the levels of inventories that they're holding. And so we had both sides of the equation. We had some customers pulling ahead, some customers holding off.

So we have, as I mentioned, moderated the second quarter forecast for the Asia foundry business. I think, I pointed to the fact that that business grew 9% in the first quarter. We're expecting that to be closer to flat for the second quarter year over year. But that's how I would summarize kind of the pull forward effect.

Pete Osterland - *Truist Securities - Analyst*

And then, I apologize if I missed it, but last quarter you gave a range for expected free cash flow for the full year. Do you have an update you can share on your expectations there either in terms of a range or a conversion ratio?

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

Yeah, so we're still expecting a strong year for free cash flow. It did start slow, as I mentioned, with the working capital build in the first quarter, but we still expect to generate around 7% of our sales down to free cash flow. The cash flow conversion capability of the company remains solid, no question there.

We have a line of sight to probably around $150 million of free cash flow this year, so still feeling good about the cash flow generation of the company.

Operator

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

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

Thank you for joining today's call. We appreciate the questions. I hope we got all of them in today, and we look forward to giving you an update on our second quarter in about three months. Thank you very much.

Operator

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