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PRESENTATION

Operator

Good day, everyone, and welcome to the First Quarter 2021 Minerals Technologies Earnings Call. Today's call is being recorded. And at this time, I would like to turn the call over to Erik Aldag, Head of Investor Relations for Minerals Technologies. Please go ahead.

Erik Aldag - *Minerals Technologies Inc. - Head of Investor Relations*

Thanks, Lisa. Good morning, everyone, and welcome to our first quarter 2021 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'll open it up to questions. I'd like to remind you that beginning on Page 15 of our 2020 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. - Chairman & CEO*

Thanks for the introduction, Erik, and good morning, everyone. We appreciate you joining today's call to discuss our first quarter 2021 results, and I hope you're all staying safe and healthy. I'll take you through the sales and operating highlights of our strong start to the year and touch on current market trends. I'll then turn it over to Matt to review our financial results in more detail and discuss our expectations for the second quarter. I'll finish up the call today by outlining the progress we're making with a broad range of growth initiatives.

Last year, our teams throughout the world worked hard to efficiently operate our facilities, protect our employees, serve our customers and simultaneously position us to capitalize on the recovery. As a result of these actions and our continued focus on responding to this dynamic environment, we are well positioned to leverage the momentum from the end of the year to deliver a strong first quarter. Before going through the quarter highlights, I wanted to share that we'll be discussing our business results today in 3 operating segments rather than 4. As detailed in our earnings release last night, we have realigned our Energy Services segment and combined it with the Environmental Products product line in Performance Materials. I'll take you through this further when I speak about our growth highlights.

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Our first quarter performance was highlighted by sales and operating growth in every segment. Specifically, we drove solid geographic growth in our core product lines, increased volumes through capacity expansions and new PCC satellite start-ups, and improved sales from recently commercialized value-added products. In addition, we continued with our proactive operational measures, including pricing and productivity improvements and overhead cost control, all of which drove income and cash flow higher compared to last year.

Demand in many of our major end markets continued to trend upward. Several of our markets recovered to pre-COVID levels. These dynamics helped drive sales of $453 million, an increase of 5% sequentially and up 8% compared to last yearWe generated $59 million of operating income and earnings per share of $1.17, up 4% and a record first quarter EPS for our company. In addition, cash from operations and free cash flow were up 68% and 142%, respectively, over last year. As we discussed on our earnings call in February, we expected that demand conditions in our end markets would continue to strengthen through the first quarter, and that's how conditions played out. Consumer-oriented markets, such as pet care, fabric care and food and pharmaceutical remained robust through the first quarter, continuing our growth trajectory. Automotive and residential construction markets remained strong. Steel markets further improved from the fourth quarter, with utilization rates reaching close to 80% in the U.S., and our paper end markets continued to rebound from a slow 2020.

Our project-oriented businesses, including environmental products and building materials are recovering and indications point to continued improvement through the second quarter. These mostly favorable end market conditions drove sales growth across the majority of our product lines. Performance Materials, sales in our Household, Personal Care and Specialty business increased 14%, driven by our global pet care platform, but also double-digit increases in other specialty applications that we've been investing in to enhance our technology and manufacturing capabilities, including fabric care, personal care and edible oil purification.

Our Metalcasting business performed well, as sales grew 32%, driven by strong demand in both North America and Asia from foundries serving automotive, heavy truck and agriculture markets. In both regions, the improved foundry conditions that we saw in the fourth quarter maintained that trajectory through the first. Specifically, Metalcasting sales in Asia were up 52% over 2020 with much of this growth coming in China. Penetration of our blended products has also accelerated in China, and sales increased 62% compared to last year. In addition, we continue to extend our value proposition with customers beyond China. Last quarter in India, which is the second largest casting market globally, sales of our blended products were up 21% over 2020.

Within our Specialty Minerals segment, our Specialty PCC business had another strong quarter, with sales up 17% over last year. Our new capacity expansions are supporting increased customer demand for our food and pharmaceutical and high-performance sealant products. In addition, we benefited from exceptionally strong demand, higher than usual in the first quarter from our Ground Valcium Carbonate and Talc products that serve the automotive and residential construction markets. Paper PCC sales increased 5%, driven by improving end market conditions and the ramp-up of new satellites. In fact, the net of the mill closures over the past year and the new capacity additions that occurred in 2020, Paper PCC volumes this quarter were slightly above the first quarter of 2019.

Finishing up our sales highlights, our Refractory segment had a great quarter, with sales increasing 7% over 2020 and margins remaining at 16.2%. This was achieved despite lower laser equipment sales, and commissioning of new orders continues to be difficult due to COVID travel restrictions.

We also had a solid operating quarter. Our performance reflects our team's disciplined execution with managing costs, implementing pricing measures and driving productivity improvements. As a result, margins expanded across the majority of our businesses. We strategically implemented price increases across our portfolio. These increases have fully offset the higher raw material, energy and logistics costs we were beginning to see. While margins dipped slightly for the company as a whole this quarter, this was primarily due to higher corporate expenses. We see margins above 14% in the second quarter and have the potential to move higher towards the second half of the year with continued improvement across our businesses. Now let me turn it over to Matt to review this and take you through the financial results in more detail. Matt?

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

Thanks, Doug. I will review our first quarter results, the performance of our segments, as well as our outlook for the second quarter. Now let's begin by reviewing the first quarter results. Overall sales in the first quarter were 5% higher sequentially and 8% higher than the prior year as the majority of our end markets remained strong, and each of our segments grew sales versus the prior year. Remember that we combined the Energy Services

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segment into Environmental Products within the Performance Materials segment this quarter. Operating income was $58.8 million or 1% higher than the prior year. As Doug mentioned, operating margins improved across the majority of our businesses as shown in the margin bridge on the bottom right of this page. However, a few discrete items impacted our overall margin in the quarter. First, our Environmental Products and Building Materials businesses have yet to experience a meaningful recovery due to ongoing project delays and COVID related restrictions. Lower contribution from these businesses had an unfavorable impact on our margin of approximately 80 basis points in the quarter. Second, while our underlying corporate expenses were stable, we experienced higher than usual mark-to-market adjustments related to the change in stock price during the quarter. This is a normal adjustment we make every quarter, and we are calling it out today because of the size of the variance, which was approximately $3.5 million year-over-year. Adjusting for these impacts, the rest of MTI grew operating margin by 60 basis points over the prior year. Continued pricing actions more than offset inflationary cost pressures on raw materials, energy and logistics. In addition, we continue to drive productivity with a 6% year-over-year improvement in the number of hours worked per ton.

Going forward, we expect operating margin to expand as our project-oriented businesses recover and corporate expenses return to a more normal level. Earnings per share of $1.17 was a record for the first quarter and was 4% above prior year and 8% above the fourth quarter, excluding special items. Our effective tax rate for the quarter was 18%, and we expect our full year effective tax rate to be approximately 20%.

Now let's review the segments in more detail, starting with Performance Materials. First quarter sales for Performance Materials were $230.9 million, 5% higher sequentially and 9% higher than the prior year. Metalcasting sales increased 6% sequentially and 32% versus the prior year as foundry demand remained strong in both North America and China. Household, Personal Care and Specialty Products sales increased 7% sequentially and 14% versus the prior year on double-digit growth across several consumer-oriented product lines. Building Materials sales grew 11% sequentially and were 18% lower than the prior year as project activity started to increase late in the first quarter. Meanwhile, Environmental Products moved through a challenging quarter, with sales down 4% sequentially and 29% versus the prior year. Operating income for the segment was $29.8 million, 9% higher than the prior year. Operating margin was 12.9% of sales, the same level as the prior year. Just as a note, these results include the consolidation of Energy Services into the segment. Operating margin was impacted sequentially by seasonally higher energy and mining costs.

I'd like to take a moment to provide some insight on the strength of the margins in this business. Excluding Environmental Products and Building Materials, which had a weaker quarter than last year, operating margins for the rest of this segment were above 15% in the quarter. As our project-oriented businesses recover, we expect overall segment margins to improve accordingly.

Now looking to the second quarter, we expect continued strength in Household and Personal Care, with some leveling off from a strong start to the year. Meanwhile, the Environmental Products and Building Materials product lines are seeing signs of recovery as more of the types of projects that we serve are getting underway. And overall, for the segment we expect a strong second quarter with sales at similar levels to the first quarter. We also expect operating margin to improve on a sequential basis, primarily due to incremental contribution from our project-oriented businesses, continued pricing actions, and continued productivity.

Now let's move to Specialty Minerals. Specialty Minerals sales were $147.8 million in the first quarter, 6% higher sequentially and 8% higher than the prior year. Paper PCC sales were 8% higher sequentially and 5% higher than the prior year as paper mill operating rates continued to improve, and all regions grew sales sequentially. In addition, ramp-ups continued for our 3 new Paper PCC satellite plants in China, India and the United States. Specialty PCC sales increased 4% sequentially and 17% versus the prior year as automotive, construction and consumer demand remain strong. Processed Minerals sales increased 5% sequentially and 10% versus the prior year on strength in residential construction and automotive markets.

Segment operating income was $21.1 million, 4% higher than the prior year. Operating margin was 14.3% of sales and was temporarily impacted by seasonally higher energy costs. Looking ahead to the second quarter, we expect continued strength in Specialty PCC and Processed Minerals. Second quarter is typically a seasonally stronger quarter for these product lines as construction activity ramps up. However, the seasonal dynamics may play out differently this year given the strong start we saw in the first quarter. We expect Paper PCC demand to remain steady and our new satellites will continue to ramp up. We expect a temporary impact on volumes as North American papermakers take their typically scheduled maintenance outages in the second quarter. Overall, for the segment, we expect second quarter sales to be similar sequentially, and we expect higher margin on more favorable operating conditions and continued pricing actions.

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Now let's turn to the Refractory segment. Refractory segment sales were $73.9 million in the first quarter, the same level as the fourth quarter and 7% higher than the prior year as continued improvement in steel mill utilization rates was offset by fewer laser measurement equipment sales compared to the fourth quarter. Segment operating income was $12 million and represented 16.2% of sales compared to 15% in the fourth quarter and 16.2% in the prior year. Steel utilization rates improved to 78% in North America and 72% in Europe in the first quarter, up from 75% and 70%, respectively, in the fourth quarter. And looking ahead, we expect the second quarter to be similar from a market perspective. Note that there are several customer furnace relines scheduled for the second quarter, and these relines result in temporarily lower demand for refractory products. In addition, while our laser equipment sales are typically weighted to the second half of the year, we're also facing delays on laser equipment installations and servicing during the ongoing COVID restrictions. Overall for the segment, we expect sales to be relatively flat on a sequential basis and operating margins to remain strong.

Now let's take a look at our cash flow and liquidity highlights. First quarter cash from operations was $51 million versus $30 million in the prior year, and free cash flow was $33 million versus $14 million in the prior year. We deployed $18 million of capital during the quarter to grow the business, develop our mines and improve our operations. We used a portion of free cash flow to repurchase $20 million of shares in the first quarter, and we have repurchased $37 million so far under our current $75 million program. The company is in a solid financial position, with over $650 million of liquidity and a net leverage ratio of 1.8x EBITDA. Our balance sheet strength provides us with significant flexibility for how we deploy capital to the most attractive opportunities.

Now let me summarize our outlook for the second quarter. In Performance Materials, we expect continued strength across the segment with the recovery of our project-oriented businesses, which will improve segment margins. In Specialty Minerals, we expect similar market conditions and typical North American paper mill maintenance outages. Our new PCC satellites will continue to ramp up, including a new packaging satellite in Europe, starting at the end of the first quarter -- second quarter. Our margin should also benefit from improved operating conditions and pricing.

In Refractories, we expect market conditions to remain strong with temporarily lower refractory products volume due to the timing of scheduled customer furnace relines. And overall for the company, we expect second quarter sales to be similar to the first quarter. We see continued strength and recovery across our end markets, and in particular, our project-oriented businesses should start to see meaningful increases in activity. The only area of uncertainty is the potential impact of semiconductor shortages that may temporarily impact automotive and steel market and demand.

Now from an operating margin perspective, we expect to return to above 14% of sales as we continue to implement pricing actions, proactively manage inflationary cost increases and drive productivity improvements. We also expect another quarter of strong free cash flow. In summary, we have the elements in place to deliver another strong performance in the second quarter. With that, I'll pass it back over to Doug to discuss the progress on our growth strategy. Doug?

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

Thanks, Matt. Before opening the call to Q&A, let's take a few minutes to highlight the progress we continue to make with our strategic growth initiatives. As I touched on earlier, our portfolio of consumer products, which represents approximately 25% of our total sales, remains a key part of our growth strategy, and we delivered double-digit sales increases in these core businesses. We continue to see opportunities to organically grow them. Geographic expansion of our core product lines is one of our growth strategies, and Asia is a key region for that growth. The first quarter sales in Asia increased 33% with all of our major countries contributing. This was driven by a broad base of businesses, new PCC capacity coming online at our sites in China and India, continued penetration of our greensand bond products and an expanding customer base in fabric care, pet care and edible oil purification.

A specific highlight in the quarter was our PCC growth, where we signed a contract with Baiyun Paper for a 50,000-ton satellite in China, which should be operational in the second quarter of 2022. 200,000 tons of new production capacity that came online at the end of last year in China and India will further contribute to volume growth this year as they fully ramp up. We're also on track to commission two additional satellites this year, totaling over 70,000 tons, one for a packaging application in Europe and another for a standard PCC plant in India.

For the past several years, we've invested in developing new technologies for treating industrial wastewater and other environmental water challenges. Our FLUORO-SORB product that addresses PFAS contamination is one example of these newer technologies. As I mentioned earlier,

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we realigned Energy Services into Environmental Products. With this combination, we will accelerate the deployment of these technologies as we bring together the technical knowledge and capabilities in our current Environmental Products business with the high flow rate processing expertise that we've built in Energy Services. This new structure will improve collaboration and better align complementary technologies and capabilities to further drive growth.

New product development is an integral part of our growth strategy, and we've taken significant steps to improve the speed of execution, increase the number of products commercialized, and enhance the impact of our latest solutions. To dimension our new product pipeline, our total portfolio comprises over 300 products from early-stage development to commercialization, representing around $800 million of revenue at full potential, which is an increase of about 30% compared to where we were two years ago. We continue to expand sales of our latest Specialty PCC products, which are supported by our capacity expansions. Specific to the first quarter, we launched several new bentonite-based formulations for construction drilling applications.

Acquisitions are also an important part of how we intend to grow and move MTI to a higher return, more balanced portfolio. We continue to see a strong pipeline of minerals-based opportunities that align with our strategic initiatives, and we have the balance sheet strength and flexibility to pursue them. As always, we'll maintain our disciplined approach to M&A.

To summarize our call today, the COVID pandemic has challenged our normal ways of working and higher virus rates continue to affect several of our regions. Our culture of connectivity and collaboration has enabled us to differentiate MTI with our customers, and maintain our strong safety and operating culture. We'll continue to build on these strengths during 2021. Even though a few of our end markets are only now beginning to improve, we had a solid first quarter with strong momentum across the majority of our businesses. With favorable demand trends in our markets, our new technology launches, capacity additions and continued strong operating performance, we have the elements in place to go from one of our most challenging years to one of our strongest. With that, let's open up the call to questions

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QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We'll take our first question from Mike Harrison with Seaport Global Securities.

Mike Harrison - *Seaport Global Securities LLC - Senior Analyst*

Congrats on the nice start to the year. The Household and Personal Care business, I think most people associate the pet care business there as being the biggest piece. And maybe you can talk about the strength and opportunities you're seeing there, but it sounded like you're seeing growth in other areas. You mentioned fabric care, health and beauty, maybe some of the edible oils or other food and beverage applications. Maybe talk a little bit more broadly about what's driving the strength in HPC?

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

Sure. Thanks, Mike. So let me start off, and then I'll probably pass it off to Jon Hastings to give you a little bit more color there. Yes, the Household and Personal Care business, the largest portion of that business is pet care. And as you know, we've been investing in both organically and inorganically growing that portion of that segment to that business. We see a lot of opportunities to continue to invest organically, specifically there. But we've also invested a lot in -- not a lot, but we've invested in our other product lines there, which as you mentioned, edible oil purification and in fabric care. And those are starting to expand not only from our traditional geographies, but also into Asia, a big area for them, and beyond that. So yes, we are investing in those. We see a lot of opportunities to grow them organically. I don't know, Jon, do you want to give -- is there anything you can give more color in some of those product lines and how we're seeing that traction going forward?

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

Sure. Happy to, Doug. Hi, Mike. A couple of things, start with edible oil purification. One of the reasons that we're able to grow is we have a very unique deposit -- a mineral deposit in Turkey that we've been able to mine. We built a plant. We've run all sorts of trials with customers. And over the course of the past couple of years, we've continued to expand that business as they see the value in that unique mineral deposit. That business continues to grow. Just year-on-year, first quarter, we doubled the size of the business to the prior year, and that was even up from the prior year before that. So customers are recognizing the value and they continue to see excellent application of the mineral, and we continue to grow. In addition, if you look at our Personal Care business, we continue to invest in and expand our capability of supplying personal care products around the world, but predominantly here in the United States. Those, again, are unique technologies that the customers really enjoy and apply to their specific uses, and we continue to grow that business. Pet Care you know pretty well. We're expanding in different geographies, some new markets. We continue to expand with new channels, including ecommerce. We introduce new SKUs and new innovation products all the time, and we continue to grow more than twice the market growth. All sorts of different opportunities. Fabric, I'll wrap up with fabric, we have a business that mainly goes into dry laundry detergents. And as those markets continue to grow in different areas of the world, we supply the products out of several different plant sites. And again, we continue to experience the benefits of the technologies and linking up with some of the key producers of the laundry detergents. So again, a variety of different reasons for growth, but I hope that provides a little clarity.

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

Mike, I'm just going to add one last thought there. And that is, when we talk about Personal Care, everything that Jon just mentioned is we have a fundamental capability in the company. Many of these are bentonite-based products, they're technologies that are around the adaptation of that mineral or a tangential technology that's come from that adaptation of that mineral to personal care, to edible oil purification, pet care, fabric care. So they stem from a really deep foundation in the company to be able to supply these products in this kind of market. And that's why we feel investing in it organically, even inorganically is something that really fits well with the company.

Mike Harrison - *Seaport Global Securities LLC - Senior Analyst*

All right. And then over on the Metalcasting side, I think you mentioned that the semiconductor shortage and maybe other supply chain issues is something that is an area of caution on the outlook there, maybe talk in a little bit more detail if you've seen a meaningful reduction in foundry demand at this point? Or kind of how they're running and approaching the auto business?

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

Yes. We supply the automotive industry through a variety of products, both in our Minerals Specialty PCC, through automotive, rheology modification for sealants, of course through our foundry products, and around the world. Right now, we haven't -- we're keeping our eye on it. We've seen some impact I think from right now a lot of the supply chains are very thin downstream. We know the automotive makers are continuing to build in inventories of those, and we're seeing that continued pull-through in our foundries and through our minerals based businesses. That said, we are also aware of some of the commentary. And we've seen a couple of shifts, a couple of days taking out. What we do see and what we do know right now is that if this becomes a little bit more of a challenge here in the second quarter, we think that will be short-lived and that will be made up through the 3rd and the back half of the year. So it's a little hard to predict. The best knowledge that we have right now is what we've given you in our current forecast. But we're keeping our eye on it, but we think if anything, if that comes through the second, we'll just be made up in the back half of the year.

Mike Harrison - *Seaport Global Securities LLC - Senior Analyst*

All right. And then maybe one for Matt. The free cash flow was obviously very nice in the first quarter here. Maybe some thoughts on the cash flow, free cash flow outlook for this year compared to the $175 million you did last year?

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

Yes. I mean, Mike, and good to talk to you. And typically, when we come into a year, we tell you we're targeting about $150 million of free cash flow. Obviously, a very strong start to here in 2021. But as we look through the rest of the year, we continue to think that the $150 million is a good target. Embedded in that would be around $80 million to $85 million of CapEx. That's about $20 million higher than what we did last year. And really, that CapEx is being directed towards the very strong growth opportunities we have across the businesses. As we've talked about in our performance review here today, a lot of our product lines are in either a sold-out nature or a very strong demand nature. And so being able to make investments that are paying off quickly and our high-return in ourselves is really what the priority of that cash flow is and how we're deploying it, thus the increase in CapEx here this year.

Operator

Our next question comes from Rosemarie Morbelli with Gabelli Research.

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

Looking -- still looking at your consumer-oriented product lines, pet is the largest business, but you are obviously growing the other categories. Is the margin difference substantial between pet and for example edible oil? My best guess is that that would be the lower margin?

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

Well, without getting specifically into the margins, they're all strong margins. I would say, yes, there's some differences, but there's also -- there's some differences by product category, by region. Our positions are different whether you're talking about some bulk products versus some very high specialty products in Europe. I would say our edible oil purification is a very specialized product. It's a very high value product. I'll leave it at that. And so I would say that's probably on the higher end of the spectrum in that segment. But there's a range of them. And I will tell you that they are improving. We've made significant progress with all of them in terms of our investments of productivity, our investments in efficiencies around the production, but also in driving what we feel is the value-added pricing of each of them. And so we're continuing to move those margins north, and we still think that through additional scale and those investments that we intend to make, we can drive that even further.

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

Thanks. Still staying with Turkey and the bentonite mine, that was a higher quality bentonite than what you had somewhere else, high-purity and whiteness and so on. Did they -- when you acquired it, did they have anything other than pet care applications? Or have you been developing the other applications from scratch from that particular resource?

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

Well, let me talk about we have a very high-quality bentonite around the world. And so -- but I think you're referring to our Sivomatic pet care acquisition. That did come with those mines in Turkey. It is a very -- from a color standpoint, very white, and that leads to what we've done in terms of bringing that as a premium product into the pet care market. So we've actually developed that very premium white market in Europe. And so yes, the Bleaching Earth products, that is a mine that MTI has had, and we've developed this Bleaching Earth product around the uniqueness of that mineral. But we also have mines elsewhere in the world that can support similar applications. So it just happens that we're basing it on those mines for now, and that's helped us grow not only throughout Europe, but also in that edible oil through new broader markets that I mentioned through Southeast Asia and into Asia. So it's well positioned to help us continue to expand that customer base like we did in the first quarter.

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

Okay. And still staying on the bentonite, you mentioned that you were developing quite a few new products bentonite-based. Can you give us a little more detail on what those new products might be or end market applications?

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

Yes. Sure. We -- again, we're with our bentonite reserves around the world and obviously, the technologies and the capability of the company to adapt it to different end uses. One I just want to highlight this quarter, we've launched a couple of new -- I know it's different, we haven't talked about it, but some drilling products. And why that's important is because we've seen some really strong customer feedback from our latest products in the drilling area. And when I talk about drilling, I'm talking about large tunneling infrastructure drilling, but also horizontal directional drilling. And we've taken some feedback from customers. There's challenges out there around the world, and we've adapted some new products to them and recently launched them and the feedback has been very positive. So we think that highlighting not only the capabilities around pet care and around foundry, I wanted to bring a little bit more to some other areas of the company that we focus on that we can adapt our bentonite-based products to deliver more value. And that was one example.

Other examples I mentioned today in water treatment. We talk a lot about our FLUOR-SORB product for wastewater treatment or that particular PFAS wastewater issue. We've got other technologies behind, similar to that type of PFAS, but other contaminant issues that we've been developing. And they're all surrounded with the technologies that we have in the company. So we've got a nice portfolio. I mentioned 300 different products, $800 million potential in value, but they're around a broad range of things. Continuing to improve our core products, but developing new ones and infrastructure drilling around our wastewater treatment, which we think is a big area that we can grow into as a company. And that's also behind combining the technologies of not only the mineral technologies, but the processing technology that we have in Energy Services that we think that two of those together are really going to bring a nice portfolio of opportunity to us.

Operator

Our next question comes from Dan Moore with CJS Securities.

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

This is Brendan on for Dan. Just wanted to ask about the monthly cadence of your revenue and demand recovery this quarter, and then anything you can speak to about April as well?

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

Yes. As we came into the year, I think I mentioned that the first quarter, typically we have some seasonality. We actually didn't experience that seasonality here in the first quarter. Those businesses that are impacted year after year from that seasonality are your Performance Minerals business, your Performance Materials business, where you get some slowdowns in customer demand as well as some changes in the mining picture that we have in those businesses. Demand remained strong throughout the quarter, coming in from January at a very good rate from the fourth quarter. I think if you recall what we said in the fourth quarter about the first quarter is that we had very strong momentum. That did continue at a nice ratable rate across January, February and March. What you are starting to see, and I think Doug talked about it a bit, you are seeing some of the movement in the demand for Metalcasting just based on 1 or 2 days from some of our customers. Most of that did continue through in our forecast that we're giving you, so you have that there. But for the rest of the portfolio, you see a very strong look here in April. That momentum is continuing. At the same time, like I said, you saw in the project-oriented businesses, a pickup coming in March. And that is going to be what we're going to see happening in the April, May, June timeframe to help offset some of those things we talked about that are going to take place in the Refractory segment where you're going to have some relines because some customer revenue is going to come out. Same thing, temporarily, same thing is going to happen in your Paper PCC businesses when the paper mills take outages. So those revenues are ramping up in the project-oriented

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businesses. The rest of the portfolio remains very strong outside of those couple of temporary items that are going to keep sales in a similar basis to where we are in the first quarter.

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

Sounds good. And then could you speak more on any signs that you are seeing a recovery in demand and the two that you called out, the Environmental Services and the Building Materials?

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

Yes. I mean, I think in March, we told you -- sorry, I just told you here in this presentation, you're starting to see some of those projects that we have our products starting to pick up. Decisions to be made to begin that commercial construction activity where we participate would be in that underground waterproofing through the envelope. So you're starting to see those projects begin to be let, and that is helping some of the COVID related delays that we have seen are now releasing. So people are getting back on to the project site, and that is helping to drive those volumes in those businesses.

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

Brendon, I'm going to just add a couple of things. One is, I think our kind of as you termed it, the cadence of our sales this year, is quite a bit different than normal, right? And I think you're probably seeing that across from many other companies. We had expected a bit of a slowdown seasonally with weather that happens in construction, residential construction. But I'll tell you, with supply chains where they were, with the automotive, our demand through the first quarter has been, was very strong. And we see that continuing through the second. There is some typical things we'll see with some shutdowns of paper mills for maintenance items, those are going to be typical this year. But as we go back, what we see going on now is even through today, with the strong demand we're seeing across our businesses, we still haven't seen that rebound in several of our product lines. And we call them our project-oriented product lines, but we see them building through the second quarter and actually see that strength even stronger in the back half of the year. And a lot of our offshore environmental products, a lot of our offshore oil drilling, we see a much stronger back half of the year. That's offshore usually comes back later than onshore, and we see that actually rebounding through the second and even more strongly in the back half of the year. The same thing with our building, waterproofing and those environmental projects. So a little bit different. Usually, that's a very strong second and third. And actually, we think that's all kind of shifting out, and the seasonality has kind of blended through this year. But we think that momentum is gaining through the second, and we actually think that that's going to continue through, potentially continue through the back half of the year. A little different this year.

Operator

Our next question comes from David Silver with CL King.

David Cyrus Silver - *CL King & Associates, Inc., Research Division - Senior VP & Senior Analyst*

Yes, I was hoping to maybe start with a couple of questions on your PCC business. And in particular, I was hoping that D.J. or Doug might be able to provide kind of a snapshot of your new project pipeline or your new project funnel. I forget how you characterize it. But with the global economy reopening and a lot more activity in a number of industries, I mean, is this the -- is this the type of environment where we might see a quicker pace of project decisions? Just maybe if you could highlight what's in the project funnel, and based on your experience in other cycles, is this the type of environment where maybe the cadence at which customers complete their due diligence and decisions get made is maybe a little bit quicker paced? Thank you.

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

Thanks, David. Yes, let me pass that to D.J. Monagle. I think he can give you some insights on kind of current paper market conditions and our pipeline of opportunities.

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

Thanks for the question, David. So in general, I'd say that, just to give you kind of the backdrop, we're seeing demand increase. We're seeing extremely strong operating rates in the U.S., which is helpful. And a lot of pull especially from Asia for interest in our products. So as I translate that strong demand, what balances that demand is when you shift to us, there's some risk of change. But -- so the value is there, the risk of change is still there, but we are seeing increased pull. If I were to give you some further dimension behind that. What we're seeing, in particular, things like the Baiyun paper project where a Chinese papermaker approached us, and we were able to convert that into a signed agreement in a relatively short time. We've got a couple of more conversations that we're having with folks in that same sort of light, offering that same sort of economic value equation. And one of the things that they're getting ready for is they see a major papermaker like Chenming putting out a higher quality paper in the region, and they want to be more competitive both from a quality standpoint and the economic standpoint. By the way, another tailwind on that is very high pulp prices right now, which are helping our value equation. So strong demand in China, and that continues. Strong demand in India as well, that continues. And these are what I would say, traditional PCC applications in printing and writing grades. We are seeing some pull also in China for some of our new packaging offerings. And -- but that's a little earlier stage in the development. The other thing in terms of our pipeline, I'd say in the other areas around the world, not China and India, is there's been some trials and some pull for a new variant of our NewYield product. This is a product that we're having good trials with. And this helps a customer release some environmental pressures, provides a high-value pigment that we're able to do more than just help them with the cost equation. And we've got advanced trials in that, and I would hope that we're able to commercialize at least one of those soon, in particular, in Europe. Then further back in the pipeline, I would say most of the stuff that's early stage is about some of our penetration into packaging. And those are traditional PCC projects, but also a couple of new products that we're trying to capitalize on and get into the market.

David Cyrus Silver - *CL King & Associates, Inc., Research Division - Senior VP & Senior Analyst*

If I could just follow-up on a couple of points. So first of all, I'll be stealing your risk of change comment. I kind of like that description. But you mentioned the U.S. market, and some time ago, you secured a restart, I guess the Phoenix paper project in Kentucky. I was wondering if maybe you could just provide a real quick update on the progress there and whether that trend towards restarting domestic capacity might continue? And then secondly, on your packaging comments, would you say that the packaging opportunities you see are more a continuation I guess of the linerboard area of packaging? Or are you potentially pursuing additional subsectors I guess within packaging grade papers? Thank you.

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

So let me try and take them in the sequence with which you offered them up, David. So first off, happy about the way Wickliffe came on. It's come on strong and we're seeing good volumes, and it's indicated in all the comments that Matt had made regarding our growth. What I would tell you is I don't see a lot of restarts. So what we see happening is 95% operating rates in North America, demand over the short term probably increasing as schools and folks come back to work, we'll have to see how that shapes up. But certainly, as we get into the fall, we would expect an increase, somewhat of an increase in demand. That demand might be offset by greater imports. So that is a calculation that we see going on across the board in the industry. What we are also seeing, though, and this is going to dovetail into the packaging comment. International paper converted their Selma operation last year to -- from printing and writing grades to a packaging grade. We were able to help in that transition as they offered a new premium or white top linerboard. So because we had a PCC plant on site, we were able to modify our product to help with their strategic goals. We see a similar thing going on in North America at a place like Jackson, Alabama, where PCA or Packaging Corporation of America has announced that they'll be converting those machines from free sheet opportunities to a packaging opportunity. And it remains to be seen exactly how we'll be able to assist them in that. But they've got the strategic capability that we offer them to go into those white top linerboard grades. We are seeing, in terms of our broader packaging portfolio, we're seeing a couple of things. In the white top grades, like I mentioned at Selma, like I mentioned at Jackson, like we discussed is coming on in the second half of this year in Europe, those are linerboards with a white top and our

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PCC products can be modified to assist there. We've got some excellent coating PCCs that are really good in solid white board that has a premium application or premium printing demand and something that someone wants to show nicely on the shelf. So we're seeing increased pull for that product, both in China and in the U.S. And then finally, we do have to have some new products that we're orienting towards very traditional brown grades of paper, and those are variants off of some of our environmentally oriented projects like NewYield has an application there, but we do have some new technologies that we're looking to put into just straight brown boxes, and we're in the early stages of that as well. So lots of things going on, but I don't see a lot of conversions back to printing and writing grades in the U.S. other than Wickliffe. But in general, I see us being able to help with that transition that we see in packaging, in particular.

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

So David, back to you original question, sorry to interrupt. I think your real question, is the environment different today for an improvement or a speed of opportunity capture? I think in some ways similar, in some ways, yes, it is different. And I think we've done that because we've broadened our product offering, our portfolio from not only just base filler, which is improving. We have a number of opportunities for just those because of the conversions and the cost savings and quality requirements that are needed in the market. We have also new technologies around packaging and our environmental solutions. And as our customers are challenged with those -- with higher quality grade packaging, as D.J. just mentioned, but also the environmental challenges. We have those technologies, too. So I think we've positioned ourselves to put ourselves into place to capture more. And I think our pipeline of opportunities, if you asked that to D.J., has grown because of that. And so yes, I think we are well positioned to accelerate on new opportunities on a broader range of areas.

David Cyrus Silver - *CL King & Associates, Inc., Research Division - Senior VP & Senior Analyst*

Okay, that's great. And then maybe I do have kind of an M&A or capital deployment related question. So in the past several weeks, the topic of outside interest in Elementis has kind of cropped up again. And there are some similarities with the new suitor, there are some differences, etc. But I'm just wondering, Doug, if you could comment on kind of the M&A pipeline that you see. And again, whether you used opportunity capture. But is the environment one where you think valuations might be elevating or rising, and therefore, some of your pipeline opportunities might be just out of your comfort zone in terms of valuation? Or maybe if you could just characterize at this stage, how you see the opportunity set and the overall environment valuation and the willingness to deal as you see it. Thank you.

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

Sure. Well, look, I commented acquisitions are going to be a way that we see able to grow the company. We've got a nice portfolio of things that we've been looking at that we think fit with our strategy and our growth strategy and things that we feel are core to what we do and that we feel we can extend value wise. That said, and again, many of those are in our core product lines, they deal with our core minerals or they're tangential and adjacencies to what we do, but pretty close to a market that we currently serve or a mineral that's of a technology that we're very, very comfortable with that's deep into our kind of culture of the company. That said, I think two things have happened. I think there's been -- there's a lot of money out there. So I think that could play to higher valuations. But I also think that through the past year, companies may have made some decisions about things they want to keep and they don't want to keep. And so I think we'll watch. And so I think there might be some opportunities that come up, things that as people decide that now is the time that we ought to be moving on from these that -- and we'll be looking at those that might fit us. Of course, as I mentioned, we're going to be disciplined in what we feel we can deliver value for. And if things get too heated, then that's okay. We keep very disciplined about how we're going to approach M&A and how we're going to deliver value for that cash because we have options for that cash. We have options to put that money into ourselves, and we have plenty of opportunities to grow organically. We've talked about many of them today. We have opportunities for shareholders in terms of direct returns. And we -- when we see good opportunities for M&A that we think have the highest return value, we'll pursue those.

Operator

We'll take our next question from Silke Kueck with JPMorgan.

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

I have a question about your guidance. And so this is like the third quarter in a row that you're giving like flat sales guidance. And I think in the fourth quarter, you beat that sales guidance, but I don't know, like $40 million or so in the first quarter, you beat it by $20 million. And you're giving like flat sales guidance again. And usually, usually, there's like a step-up of like $30 million or $35 million from the first and second quarter. And I understand that you started strong and there's some shutdowns, but those happen every year. And so why the conservative sales guidance? Or is it just the very low end of what you think you plan to achieve?

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

No, Silke, I think what we do every quarter is try and give you the best perspective on what we see at the time. And obviously, there is favorability. There's also risk in our forecast. And so we manage those as we move through the quarter. I think what you've seen over the last call it 2 or 3 quarters, is a return to the markets that has been very strong. And that has helped drive volumes faster, I think, than what we or anyone else has been expecting. And so yes, that plays through. Here in the first quarter, remember, and I think you just spoke to it, we typically see a seasonal impact in our first and fourth quarters of about 10% in sales. And what we just said was, we didn't really see a lot of that in the fourth quarter. We didn't see it in the first quarter. And so you're operating at a very strong rate across those businesses that are typically seasonally impacted. And so that carries through to the second quarter, right? When you would typically see that normal seasonal bump up that you just spoke about, well, they're already operating at that rate. The difference here in the second quarter, like we spoke about, yes, you have the typical outages in Paper PCC. Those are temporary. Those are typical. You have your temporary impacts in the refractories business, where their customers are doing the relines. Listen, some of those have been pushed out, and over time, they're going to need to be done. And so you've seen in our Refractories business, those relines being pushed out. And so now they're going to start happening. That is in the forecast. When you look at what is offsetting those, and I think this is what you're speaking to, some of the businesses that haven't really come back yet, that you haven't seen the demand return, so those project-oriented businesses and you just heard Doug speak about quite a few of the specific impacts in those businesses, Building Materials, Environmental Products and Energy Services and how they're going to transact through the course of the year. You're starting to see those revenues and those projects begin to be let. And that's what's pulling differently to offset those temporary and typical shutdowns and impacts that we have. The other thing that we have in our outlook is the impact from the chip shortage that may impact the automotive and steel markets. And so like we said, we haven't given a significant dollar amount in terms of what that could be because at this point, we haven't seen it. Our customers are continuing to perform and pull. But should there be something there? That's a caveat. We've taken some conservatism based on the fact that we do have customers who are pulling out shifts. And so I think we're giving you a very robust view of what the second quarter could look like from a top line perspective. And importantly, let's remember this. What we're talking about is from a margin perspective, driving the margin back above 14%, right? And on our way, as we've talked about previously, to getting back to above 15% and which Doug said, you may see that coming later in the year as volumes continue to return. Point there being, we're dealing with a number of inflationary factors that didn't necessarily impact us in the first quarter. Our pricing more than offset the inflationary factors. Those are going to continue in energy and in freight into the second quarter. But guess what, our teams have been very active and at the forefront speaking with customers, driving value through the products that we have. And you heard us all say it on this call, we price on the value that we deliver, not necessarily on the commodity value. So a good point in fact here is, in the Performance Minerals business, you've seen us raise prices three times already this year. We're going to continue to drive at that. And so maintaining that stature, that connection with our customers, staying ahead of it to move that margin is also an important part.

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

Okay. Thank you for that. Secondly, like usually in the first quarter, it's normally the highest quarter for working capital use. And this year, it's -- like this year in the first quarter is relatively low. And are you able to -- and what is like noticeable is that your payables are down quarter-over-quarter. I mean is it the case that there's like a timing issue? Or are you able to just manage your working capital a little better?

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

Yes. I think we've done some very good things over the past couple of years, focusing on all components of working capital. What you are seeing here in the first quarter is the fact that we've been able to improve the efficiency pretty sizably in both our accounts receivable and in inventories. So we did last year obviously work on our position, our efficiencies in terms of both of those two categories. You're seeing that translate here into the first quarter where you typically see us draw down in some areas, but revenues are typically rising. And so the efficiency, if you look at it on a days' basis, has improved dramatically on a year-over-year basis.

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

And lastly, I was wondering how much of the price increases that you have announced in January, like how much of those that you achieved? And remember that you said we are targeting 3% for PCC, maybe 5% to 10% for a Talc product. It was sort of like a wide range, rather, specialty products, like 3% to 10%. Like how much have you gotten so far? And how much more you're trying to achieve for the rest of the year?

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

So, let me grab that one. I will tell you, it's -- we pretty much -- well, let me go back. Some of our price increases in like paper, is contractual. So we will pass through pricing. We have different contracts and refractories that we can move pricing every 6 months or so. I think when you're referring to some of the percentage increases, yes, we've put up prices. We're seeing conditions and new product and value for those products that we feel we can price. And I would say that we've captured 100% of that price increase of those initiatives. I'll also tell you that in some cases, we're moving pricing already three times this year, right. Something that might only happen once a year in certain conditions, we're moving pricing in some product lines already three times in the first half. So it's different. I would say we've been very successful. We have very close relationships with our customers. We want to make sure that that pricing reflects the value delivered. And we also are seeing a lot of high demand for many of our products that we are accommodating. And so look, I think we work closely with our customers to make sure that things are priced right. But yes, we've been -- we've done very well at making sure we capture it. And yes, that has covered all of the inflationary increases that we've seen today.

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

Yes, a phenomenal job. Thanks very much.

Operator

We have a follow-up question from Mike Harrison with Seaport Global Securities.

Mike Harrison - *Seaport Global Securities LLC - Senior Analyst*

Just one more, and I apologize if you discussed this in greater detail already. But are there some cost benefits from putting the Energy Services business into the environmental business and kind of removing that segment structure? Or is that pretty de minimis?

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

No. I think there's not a lot of cost synergies associated directly with that. I think, though, that the efficiency is associated with being able to tie in those technologies to sell new products. The more of the efficiencies we see on the commercial side, also efficiencies with combining the knowledge base I think will happen. So not a lot of direct cost synergies, much more on the synergies in terms of technology development, joint development and on the commercial side.

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Mike Harrison - *Seaport Global Securities LLC - Senior Analyst*

Okay. And then in terms of the inflationary environment you're in, you guys I think did a good job telegraphing that you expected some seasonal increases in energy and in mining costs. Were all of those increases pretty much in line with your expectations? Or did they run a little bit higher than what you were anticipating when you gave your Q1 outlook?

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

Pretty much in line. I think, obviously, the way you forecast things, it never always plays out exactly that. So I think the team has done a great job just making sure we're keeping our eye on everything coming at us, not only just in the first quarter, but we're looking at that next quarter and all the quarters out. So we've got, like I like to call it, we have the headlights on, and the team has done a great job. I would say areas that have been some challenging, and I think you'll hear this from other companies, logistics are very tight. Shipping logistics doesn't necessarily impact us. We don't export as much. We operate pretty much localized in the countries where we manufacture and sell. Logistics are challenging, but we've been working, the team has done a great job working through those items. So maybe a little bit different than we forecast, but from a total aggregate basis, pretty much right on what we thought.

Mike Harrison - *Seaport Global Securities LLC - Senior Analyst*

Okay. And then last question for me is on Refractories. It seems like that business typically has stronger margin in Q1 and then the rest of the year is more subdued. Is there something structural that causes that? Or is it just kind of coincidence that that seems to be the trend for the last few years?

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

Typically, the margins are -- historically, the margins have been higher in the fourth quarter, and that's because that's usually where we sell quite a bit of our Ferrotron laser equipment. And I think we've talked about this, and I'm going to pass it over to Brett Argirakis, who runs the business, but the past several years, the business has really changed kind of its profile and how it's done and how its margin profile has expanded. And so it's not necessarily a first quarter, fourth quarter anymore. It's a different structure, and it's not just occurred now. It's occurred over the past several years. Brett, do you want to highlight a little bit more about what you've been doing?

Brett Argirakis - *Minteq International Inc. - MD*

Sure, sure. Thanks for the question, Mike. Yes, I really -- it's, there's a couple of factors. Of course, the steel production is critical, so you see the stronger utilization rates, there's higher steel prices, so that's driving those rates. And then again, as Matt pointed out, the steelmakers are pushing those furnaces pretty hard to capture those steel prices. Then there's the second part of it is our ongoing business focus. This has been in place for some time over the last several years and really a key focus in product development. We've really started developing more efficient formulations that provide our customers with improved performance and really reduce cost per ton of steel. The laser equipment, the laser equipment although it slowed down because of COVID, we continue to invest in that technology. And that's going to come back soon because there's still a lot of customer pool. And in addition, we've done a really good job with expense control, price management and manufacturing efficiencies. We're also backward, we have our backward integration in Turkey with our MGO and also in our wire in Canaan. So we've become very efficient. This team has worked very well together. And then lastly, it's really the new business growth. We announced on our last call 5 new accounts that are -- some are green, 4 out of 5 are greenfield sites, and that includes refractory, alloy wire and calcium wire. So really a pretty strong performance across the board from our team.

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

Yes, Mike, one of the things we don't talk about very often, but Brett just mentioned it, is our vertical integration in calcium. We are the only manufacturer of calcium metal in the Western Hemisphere. I don't think people know that. But in times like this, with demand and logistics and challenges around the world and moving products, being able to be vertically integrated in a core product that's essential to steel manufacturers around the world, that's been demonstrated to our customers. So not only the product development that Brett mentioned, our vertical integration and stability through times like this has really resonated I think with the customer base. And so we're helping bring them more value and stability, and I think that's accruing to us as well.

Mike Harrison - *Seaport Global Securities LLC - Senior Analyst*

All right. It sounds like a lot of positive dynamics there. Thanks for the color.

Operator

And at this time, I would like to turn the call back to Mr. Doug Dietrich for any closing remarks.

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

Thank you very much. I really appreciate everyone joining today and look forward to talking to you after our second quarter. Take care, everyone.

Operator

And that does conclude today's presentation. Thank you for your participation. You may now disconnect.

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