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PRESENTATION

Operator

Good day, and welcome to the First Quarter 2018 Minerals Technologies' Earnings Call. (Operator Instructions)

At this time, I would like to turn the call over to Cindi Buckwalter, Vice President of Investor Relations and Corporate Communications for Minerals Technologies. Please go ahead, Ms. Buckwalter.

Cindi Buckwalter - *Minerals Technologies Inc. - VP of Investor Relations and Corporate Communications*

Thanks, Abby. Good morning, everyone, and welcome to our first quarter 2018 earnings conference call. On today's call, Chief Executive Officer, Doug Dietrich will provide an overview of our results, growth strategies and the acquisition of Sivomatic; and Chief Financial Officer, Matt Garth will provide a more detailed review of our financial performance.

I would like to remind you that beginning on Page 13 of our 2017 10-K, we list the various risk factors and conditions that may affect our future results. And I'll also point out the safe harbor disclaimer on this slide. Statements related to future performance by members of our team are subject to these limitations, cautionary remarks and conditions.

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

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

Thanks, Cindi. Good morning, everyone. I'll start off today by covering the highlights from our first quarter, and then I want to take some time to review the progress we're making against our growth strategies. As part of that, I'll take you through our recent acquisition of Sivomatic, the details of the transaction, a description of the business and how it fits into our existing pet litter business.

Finally, we'll turn it over to Matt for a more detailed discussion of our first quarter results, and second quarter outlook.

We had a solid first quarter with earnings per share up 6% to $1.13. Sales also increased 6% with growth in all 4 segments, across all geographies and in the majority of our product lines.

We saw some benefit from favorable foreign exchange this quarter, however our underlying sales momentum has continued from the second half of last year.

As we mentioned last quarter, we exited our bulk chromite business in South Africa. The reduction in these sales in comparison to last year impacted operating income in the quarter by approximately $7 million. We offset this by delivering strong profit growth across the majority of our businesses. Excluding the change in chromite sales, year-over-year sales in the remaining product lines increased 9% and operating income increased by 10%.

Let me take you through what's behind this performance, and also some of the challenges we faced during the quarter. In Specialty Minerals, our Paper PCC business had a strong quarter. Sales increased 4%, and income rose 17%, driven by the execution on our restructuring program as we focus our resources on growth regions.

In Performance Materials, sales increased 10% driven by our metalcasting business, which delivered 19% sales growth and 16% operating income growth from solid demand in North America and continued growth in China and India.

Household and Personal Care sales were up 18%, and income up 20% from sales of our new dry laundry additive as well as higher volumes of Pet Care products.

Building Materials and Environmental Products also saw strong sales increases.

The Refractories Segment delivered a record performance this quarter. We saw strong volumes in both North America and Europe, driven by steel mill operating rates that approached 76%. Sales for the business increased 10%, which were leveraged to drive operating income up 39%, delivering record profitability for the segment.

Asia continues to be a strong growth region for us, again, driven by both metalcasting and Paper PCC. This quarter marked our 13th consecutive quarter of year-over-year growth in China.

We also faced a number of challenges in the quarter. Our GCC, talc and bentonite processing plants in Massachusetts, Montana and Wyoming, had a difficult quarter. Extreme weather conditions restricted processing and mining operations at these plants which impacted production volumes and increased operating costs.

In addition, we're facing higher energy and raw material costs across all of our businesses. Shipping and logistics remain challenging, as transportation costs continue to rise and availability of both truck and rail are tight.

We were largely able to offset these issues through pricing, productivity improvements and good expense and cost control. We do, however, expect these cost issues to continue for the remainder of the year.

Our balance sheet is in a strong position with net debt levels ending the quarter around 2x EBITDA, and our priority for cash flows in 2018 is to remain balanced and invest in the highest value creating opportunities.

First and foremost, we see opportunities to invest in our own organic growth. We continue to make progress with the 2 Specialty PCC expansions in Performance Minerals. We completed the expansion of one PCC plant and are progressing with the construction of 2 other new PCC facilities in Indonesia. We also commissioned a new facility in Turkey this quarter, which produces a product called Bleaching Earth, which is used to clarify edible oils.

Each of these new facilities and expansions will contribute to both revenue and profit growth. Lastly, we acquired Sivomatic, a premium pet litter products company, which fits squarely into our core business and growth strategy.

I'll discuss this in more detail in a few minutes. But all in all, it was a productive quarter with a number of positive highlights.

Let me just take a moment to review with you our growth strategy, which remains unchanged. We pursue a 3-part strategy to drive profitable growth: geographic expansion, new product development and acquisitions.

Geographic expansion across all of our businesses has been a key focus area, one that we highlight often and one where we've made significant progress. Last year, we reviewed with you our new product development pipeline and the significant potential future revenue it presents for us. Over the past year, we've made progress driving greater speed and efficiency with the commercialization of new ideas in the pipeline. And we've talked about our acquisition criteria, and in general, about our opportunity portfolio. Underlying and supporting these strategies is our constant focus on operational excellence, and the application of lean tools to strengthen both our manufacturing and business processes to support these growth initiatives.

Let me be clear, our strategy is focused on profitable growth, which requires the full alignment of our employees, our resources, and the efficient allocation of capital to drive sustainable value.

Let me give you a summary of where our growth is coming from over the past few quarters. First, as you can see from the chart on the left, our growth is broad based and across all regions, but we realized significant growth in Asia, and in particular China and India over the past several years. We've also grown in each of our other major geographies.

In Specialty Minerals, we've expanded Paper PCC capacity at existing satellites in Indonesia, South Africa and Japan over the last 18 months and are currently analyzing additional expansions with customers in the U.S., Europe, Latin America and India.

We're currently constructing 2 additional Paper PCC satellites in Indonesia and have a strong pipeline of new business opportunities with paper makers worldwide.

In addition, we're expanding our Specialty PCC capacity in both the U.S. and the U.K.

In Performance Materials, our Metalcasting, Pet Care and Fabric Care product lines continue to grow throughout Asia and India, and our acquisition of Sivomatic extends our pet litter platform and growth to Europe.

Our new Bleaching Earth facility in Turkey will generate additional revenue throughout the Middle East, Europe and Southeast Asia. And our Refractories and Energy Services businesses are growing with improved steel and energy market conditions globally.

Second, we're seeing healthy customer pull from the new products that we've commercialized over the past year. In Fabric Care, we've developed a new additive for dry laundry detergent. In Pet Care, we've introduced lightweight cat litter and scented litter products. In Metalcasting, we've developed new green sand bond formulations for customers globally. And in Environmental Products, we have new environmental and waste water remediation technologies that are targeted at large contamination sites globally.

Discussions continue with customers in our Paper PCC business regarding our innovative NewYield and FulFill technologies and we're conducting trials of new packaging products.

In Refractories, we've commercialized 4 new high-durability refractory products in the past year, which help customers maintain performance and reduce costs. And in Energy Services, our produced water analytical service offering, called ORCA, continues to gain traction. This service is aimed at solving complex offshore produced water issues and our engagement activity is up 15% over last year.

The company has commercialized approximately 80 new products over the past 5 years, which have the potential to deliver $300 million of revenue. Through the deployment of lean tools, we continue to make improvements on our new product development and commercialization process. And this year, we expect an increase of 15% in the revenue from new products compared to last year.

Acquisitions are also a component of how we intend to grow. We spend significant time analyzing and assessing potential acquisitions and have developed a sizable portfolio of opportunities. Sivomatic was one of those opportunities and through this acquisition, we've strengthened one of our core product lines and extended its geographic reach.

Let me take a minute to remind you of what our acquisition strategy is, and also, how Sivomatic fits. Our focus has been on minerals-based companies, where we can leverage our technological expertise, provide growth in attractive markets, deepen our positions in existing markets or extend our core product lines to new geographies.

Sivomatic meets all of these criteria. Sivomatic has a long history as a well-run company with an impressive track record of innovation and profitable growth, generating an 8% compound annual growth rate in revenue over the past 5 years. We purchased Sivomatic for EUR 110 million. In 2017 they generated revenue of EUR 73 million and EBITDA of EUR 15 million. We expect to fully integrate the business and processes over the next few months.

Matt will take you through more of these details in his section. But to better explain how Sivomatic fits into MTI, let me first take you through our existing Pet Care business. In terms of financial reporting, Pet Care is reported in our Performance Materials segment. It is part of our Household and Personal Care product line, which includes Pet Care, Fabric Care, Personal Care and other specialty products.

You can see from the pie chart that Pet Care is the largest portion of this product line and has grown at a CAGR of 8% over the past 5 years. We serve all value chains in the cat litter business, we are one of the leading suppliers of private-label packaged cat litter in the U.S., we market our own brand through several retail outlets, and we also provide bulk litter to large consumer products companies for their branded products.

Our sales are primarily in North America where we package and distribute 10 private label brands in addition to our own brands, Premium Choice and Cat Tails, and we continue to grow our position in the China and Southeast Asia cat litter markets where we supply 5 private label brands.

We're 100% vertically integrated from mine-to-market in the U.S., which is a unique position and which provides great value in terms of consistency and security of supply to our retail partners. We utilize our high quality Sodium Bentonite reserves in Wyoming for the U.S. market, and also have production facilities in China, Australia and Thailand to support these regions.

Our products include innovative offerings such as lightweight cat litter and a variety of fragrance and aesthetic offerings tailored to different markets and customers.

Sivomatic is a mirror image of our Pet Care business model. They have a leading position in premium pet litter products in Europe, supplying the major European retailers with 55 private-label products in addition to their own brand, SivoCat.

Sivomatic is also vertically integrated with high-quality differentiated ore from wholly owned mines in Turkey and with production facilities located in the Netherlands, Austria and Italy.

As a result of this acquisition, we're doubling the size of our Pet Care business, expanding our presence in the consumer Pet Care market and adding to our strong base of bentonite reserves in Turkey. In addition, Sivomatic builds upon our established operating footprint in Europe.

We currently have 26 facilities and offices in Europe, 5 of which are in Turkey along with an existing management and shared service organization across Europe who are well positioned to successfully integrate and operate the business. We expect a small level of cost synergies with the acquisition, primarily as we integrate business transactions, but see more long-term value as we leverage the combined businesses globally and work with customers to bring new innovative products to market.

In summary, we believe this is a good acquisition for MTI. Sivomatic is a strategic fit, and we look forward to working with the management team and employees on a seamless integration.

Now I'll turn it over to Matt to give you a deeper dive into our financial performance for the quarter and our outlook for the second quarter. Matt?

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

Thanks, Doug, and hello, everyone. I will review our first quarter results, the performance of our 4 segments, and also provide you with our outlook for the second quarter.

We delivered sales growth of 6% in the first quarter, or 9% excluding bulk chromite, driven by increases in every segment of the company and in all regions. Foreign exchange accounted for 4 percentage points of growth. Operating income was 1% lower than last year. Double-digit operating income growth across many of our Performance Materials businesses was more than offset by the decline in bulk chromite, which as Doug highlighted, impacted year-over-year operating income in this segment by approximately $7 million.

In Specialty Minerals, Paper PCC had a strong sales and operational performance, while Performance Minerals was lower due to challenging operating conditions. Energy Services was slightly lower while Refractories delivered a record level of margin in the quarter. The operating income bridge shows that, adjusting for the year-over-year bulk chromite impact, our business performance was strong.

We managed what was in our control. We raised pricing, drove higher volumes, increased productivity and maintained strict cost control to overcome significant raw material and energy increases and deliver 10% operating income growth.

Also note that we have adjusted our financials to conform with the latest pension accounting requirements, the net result of which had a minimal impact on the current and prior year quarters. SG&A was 11.7% of sales in the first quarter, down 5% from last year, and earnings per share excluding acquisition-related costs, was up 6% to $1.13 per share.

Our EPS benefited from lower interest expense, higher equity earnings and a lower effective tax rate, which was 19% for the quarter. For the full year, we expect our effective tax rate to be 20% to 22%.

Next, let's have a look at our EPS trend. In short, the performance of our businesses overcame $0.14 of lower earnings from the pending exit of our bulk chromite business and combined with below the operating income line benefits to deliver EPS of $1.13. Again, an increase of 6% versus last year.

Now let's review the segments in detail, starting with Performance Materials. Revenue in Performance Materials increased 10% compared to last year, while operating income decreased by 9%. The decrease is fully attributable to the reduction in bulk chromite and our pending exit from that business.

We saw strong sales growth from nearly every product line. Metalcasting was up 19%, Household and Personal Care increased 18%, Environmental Products increased 20% and sales of Drilling Products within the Basic Minerals product line increased by 35%.

Segment operating income was $26.2 million and operating margin was 14%. However, highlighted in the charts in blue, we've provided the pro forma profitability of this segment. You can see that on this basis, operating income is up 19% on 16% sales growth.

Now looking to the second quarter, we expect operating income to be higher by $4 million sequentially on seasonally stronger sales across the business. There are 2 factors that may affect this outlook. First, field conditions in our Western United States mines were still challenged by adverse weather in April; and second, the timing of large projects in Building Materials and Environmental Products may shift between Q2 and Q3 of this year.

We expect cost efficiencies and increased productivity from the higher volumes across the segment to help mitigate these challenges. Lastly, Sivomatic is now a part of the Performance Materials segment. The integration of Sivomatic will take place primarily over the second quarter, and we expect MTI EPS accretion of 4% to 5% on a full year basis beginning in the second half of this year.

Now let's turn to our Specialty Minerals segment. Specialty Minerals sales were up 2% versus last year. Paper PCC sales grew 4%, driven by Europe, Asia and Latin America. Operating income also improved, reaching the highest level since the fourth quarter of 2015 for this product line.

Performance Minerals faced a challenging quarter that resulted in weak sales and profitability. While overall sales were flat, demand is strong and the order book reflects improving seasonal conditions.

First quarter Ground Calcium Carbonate sales growth of 5%, which was driven by higher volumes in the construction market, was offset by an 8% decrease in Talc sales. Segment operating income was $24.1 million, which was down 1% from last year. The improved performance in Paper PCC was offset by the challenges we faced in the Performance Minerals business.

Across our 5 global minerals processing facilities we experienced extreme weather conditions, that limited production activity, drove higher energy and maintenance spend, and resulted in difficulty moving our products to customers via both rail and truck.

The sum total of these impacts was $2 million in the first quarter. Although we continue to see strained logistics conditions, we are overcoming these operating challenges and the business is in a solid position entering its highest demand quarter.

Looking at the second quarter, we expect Paper PCC to perform at a similar level sequentially. However, we will experience the typical seasonal paper mill maintenance outages.

Performance Minerals profitability will recover on both higher seasonal demand and improved operating and mining conditions. And overall for this segment, we expect operating income to be higher by $3 million sequentially.

Now let's turn to our Refractories segment. Segment sales increased 7%. Refractory product sales rose 10%, benefiting from improving global steel market conditions and rising demand for our solutions. Lower metallurgical wire sales and the timing of laser measurement systems sales slightly offset the refractory improvements.

As Doug mentioned previously, this segment delivered record operating income and margins in the first quarter, up 39% from last year, primarily on higher refractory volumes. Faced with significantly higher raw material costs, this business is driving pricing and innovative solutions to manage this impact and keep our customers running optimally.

Magnesium oxide, also known as MgO, is the most significant cost driver with current prices up 50% on average versus last year across all of our grades. We have used our strategic supply chain group to help mitigate MgO and other commodity input increases by sourcing from a variety of global suppliers.

In addition, we have optimized our kiln operations in Turkey to supplement the supply of our own high-quality MgO for our European operations.

However, we will see higher raw material costs impact Refractory products for the remainder of 2018, and as a result, in the second quarter, we expect segment operating income to be down $1 million to $2 million sequentially.

Let's move to Energy Services. Sales increased 2%, primarily driven by higher filtration activity in the North Sea. Operating income was $1.5 million and operating margin was 7.9% due to the sales mix in the U.S. of higher filtration and lower well testing activity.

Looking to the second quarter, we expect operating income to be slightly higher sequentially on increasing well testing activity globally and additional large equipment installations.

Let me take a minute to provide a review of our liquidity and debt highlights. The left-hand side of this chart shows our cash generation and use for the quarter. We generated cash from operations of $36 million and deployed $18 million of capital expenditures to deliver free cash flow of $18 million.

We balanced our capital deployment in the quarter between investments, share repurchases and an increased cash balance ahead of the Sivomatic acquisition. We repurchased 82,000 shares at an average price of $69.64. This $5.7 million repurchase more than offset the dilution related to our stock compensation program.

With our net leverage at 2.2x EBITDA, we are around our target level and have good financial flexibility.

We paid for the Sivomatic acquisition with a combination of euro cash on hand, and a drawdown on our revolver, which will bring our net leverage to approximately 2.5x.

We intend to pay down this debt over the next few quarters, while also maintaining a balanced approach to deployment of our free cash flow.

Lastly, the acquisition provided us an opportune time to improve the liquidity and flexibility of the company. We recently extended our revolving credit facility maturity to 2023, upsized the total available to us from $200 million to $300 million and reduced our overall borrowing rate.

In doing so, we improved key credit terms for the company and increased our ability to manage global cash flow needs and bolt-on acquisition funding.

So now let me summarize our outlook for the second quarter. In Performance Materials, we expect operating income to be higher by $4 million sequentially.

In Specialty Minerals, we expect operating income to be higher by $3 million sequentially. Refractories operating income is expected to decrease by $1 million to $2 million and Energy Services operating income is expected to be slightly higher.

Overall, for Minerals Technologies, we expect second quarter earnings to be between $1.25 and $1.30 per share. We had a challenging start in April due to the weather conditions in our Western minerals operations, which could result in earnings coming in at the lower end of this range. However, production and productivity are improving and our demand levels remain strong.

With that, let's move to Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And we will take our first question from Jeff Zekauskas with JPMorgan.

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

This is Silke Kueck for Jeff. I was wondering whether you -- so 2 questions. The first is, do you have a cost target in mind that you're trying to achieve this year? And that is, your sales are flat sequentially, but the SG&A is down 7%. And I think, year-over-year, your sales are higher and your SG&A relatively flat? So I was wondering whether you had like a target in mind as to what you're trying to achieve this...

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

We have plenty of cost targets and it's -- Silke. We -- I guess, I tell you, setting targets around cost control, variable cost control, fixed cost control, including overheads, it's just kind of part of our DNA. I think we've talked about it before. We go into every year planning on productivity improvements. We plan on productivity improvements, and we set the bar at 10%.

We look for opportunities to improve productivities around the world and we've shown that practice generally gets us around 5% to 6% on average every year for the past 10. We look at variable cost control targets. We set them by business every year, largely meeting them and we look at tight cost control and overheads. So I think though, where your question might be coming from, is you're looking at some of the margins, and saying, okay, so how are the -- where are these margins going? I guess, I'll frame it this way, maybe Matt can jump in, but the margin decline in the business and the company in total was largely related to the chromite. And I know we keep talking about that but excluding that, margins actually grew over last year. And so our productivity, our variable cost control, and yes, as you saw this quarter, our tight expense control, is just kind of what we do every day. Does that help?

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

I think it answers it a little bit and I can follow up. Secondly, the way I understood what you said about Sivomatic, you said it will add 4% to 5% growth to second half EPS. And so like last year, I guess your earnings in the second half were something like $2.30, and if you grew 4% or 5% and that's sort of like, something like, somewhere between like $0.09, $0.10, $0.11. And even though there's like $50 million EBIT on an annualized basis, and you probably realize half of that -- I understand there's some interest cost. Why isn't earnings accretion higher than that?

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

So I think what Matt gave you is the annualized accretion. We see about 4% to 5% on an annualized basis.

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

Annualized basis. Okay, then that clears it up.

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

Yes. That helped you. And Silke, look -- back to your question, I think, what you're looking for is what's our target margins. We've had a target margins of 16% as a total company. We've set that as part of our growth objectives as well, both sales and margins. Full year last year, it was about 15.7%, and we're going to be working our way, we have the opportunities in front of us both from the cost targets that I've mentioned, but also as we work through some of these new expansions, we've absorbed a lot of startup costs in our plant in Turkey and these expansions, we have some additional growth in Asia with our Indonesia satellites coming online. Those will all contribute -- contribution margin to the company, we're not adding a lot of overhead, but we do need to move through those. And so I do see these margins moving back to those target levels through the end of this year. That gives you some help on what we're targeting.

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

And let me just add, Silke, on Sivomatic. As you look at it, the acquired EBITDA, you know that we will go through some purchase accounting assessments. We're taking a look at that right now. That's why we told you, for the second quarter, really, what we're looking at is a number of potential offsets as we bring in Sivomatic and integrate it as well as the purchase accounting impact. So really looking for the accretion to start in the second half of the year.

Operator

We'll take our next question from Daniel Moore with CJS Securities.

Pete Lucas - *CJS Securities, Inc. - Analyst*

This is Pete Lucas for Dan. Just a question. Metalcasting growth remains robust. Can you talk about adoption rates in China? And remind us where we are in the conversion to green sand bonds? And how long of a runway you continue to -- you have to continue to grow market share?

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

So let me kick it off and then I'll pass it over to Gary Castagna to answer. So an idea, just kind of market sizes here. The China market is the largest metalcasting market in the world. I think the India market has now surpassed the U.S. as the second and I actually think the China metalcasting market is 4x the size of the United States?

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

Yes.

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

So if you think of 2 different products, you think of base clay that we sell in China and then what we call our engineered blended product. In the United States, a market that's about 25% the size of China, I think the consumption of a blended engineered product is probably 90% of the market.

When you look -- and look at the portion of the market in China that consumes a blended product versus a base clay, that's probably about 20% to 25%.

So when you look at the size of the market and the penetration of our blended solution, we've got a long way to go, right? And so really it's been what's the rate of that penetration and the development of our engineered solution for the tier -- the higher end tiers, more sophisticated end of the market. That's similar to the automotive industry and supply base that we have here in the U.S. and Europe. So that's the size, so the opportunity is very large, that's what's really behind this growth. We see it continuing. Gary, how about some flavor on what's behind that conversion and the pace that we are moving at?

Gary L. Castagna - *Minerals Technologies Inc. - Group President of Performance Materials*

Sure, Doug. Yes, I think that Doug kind of led it off in the broader context that the foundries that are in China are evolving. They adopt a, very much of the same equipment that are used here in the U.S. and technology really drives the use of the green sand bond in that portion of the process. And so as there's more sophistication coming to the market, the adoption rate has continued to increase and somewhat accelerate.

It is still a -- as Doug pointed out, and quite important to note, a very small percentage of the overall market at this point. So quite a bit of white space there in terms of working with the customer networks to essentially show them the value of essentially converting to a total bond solution. The strategy though, in the last year or 2 that it has fueled the growth, it has certainly been to put the footprint in at the facilities with our base product and that still is a large majority of our sales. And of course the profitability and whatnot is commensurate in terms of what end of the portfolio we're selling. As we get more involvement with the foundries then we work with more trials. So to give you an idea, we probably have as many as 15 different foundry trials underway at this point at the higher end of the market, that we're selective as to where we do this. So that we can work with existing customers, who we today sell a basic solution to and move them onto a more sophisticated solution.

So as the years have progressed, today where it's perhaps maybe 15% to 20% of our revenue in China, to give you an idea, where the target is, in the U.S, it's over 90% of our sales.

So there is no reason not to get there. Timing and trajectory are always the challenge points, but the value proposition is there and it's just continually working at day in and day out to show that value proposition in use. And one last thing, it's also important to have the footprint, and we've been investing in China to make sure that we have the footprint to serve in the markets as well. And we're getting better at that and we'll continue to expand on that, which also enhances the proposition to customers.

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

I think that -- Pete, I'll just one add one thing. I think that it speaks more to Silke's question. Why we're so kind of bullish on our margin growth over time? It's because we're making these investments, and we've been making them today, we're selling a relatively -- that growth that you're seeing is -- we're selling a lower margin product right now to establish that base, and we see that conversion to that higher margin blended product over time and that's what that and some other higher margin products that we're deploying today in some of our capacity expansions, that's what's going to fuel that growth in both margin and revenue.

Pete Lucas - *CJS Securities, Inc. - Analyst*

Extremely helpful. Just jumping to PCC. Can you update us on the pipeline of new potential projects and opportunities? And penetration in China has been a little bit slower than expected. Just wondering if there's been any impact from the rhetoric around trade and tariffs had on potential opportunities there? And what you're hearing?

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

Some, let me give it to D.J. Monagle, who'll give you some color on that.

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

Glad to. So when we spoke of this last time, I had indicated there were 12 or so projects in the pipeline. That number still remains and is growing a little bit. Didn't obviously close any satellite contracts during the process, but of that group, a fair amount of them are in China, and I'll give you some more flavor on what's going on in China. But the majority of those are in printing and writing grades with our traditional PCCs, but as we highlighted last time, something that's kind of different about that portfolio, that pipeline is that we've also got quite a few more packaging targets.

When we think of packaging as a grade, I tend to break that down into white boxes and brown boxes. And so we've got a couple of opportunities that are developing in white boxes. One or two on filler and a couple more in coating of those white boxes. We think we've got a differentiable value equation there. And then on top of that, we've got some new products that we're trialing for the packaging industry that are going after the brown boxes. So there is a quite a bit of activity going on with packaging. Now you had asked about China, and specifically regarding tariffs and those items, we don't see tariffs affecting the rate of penetration, the rate of change for the paper industry from China. What we do see though, is there are some environmental issues that China is dealing with and controlling through Beijing, where especially as it relates to CO_2 emissions and water contamination. Where they've actually been shutting down some paper machines and some mills and then relocating those. That relocation has caused some disturbance in the industry right now. The overall demand and overall consumption looks to be what we projected but exactly where those -- that manufacturing base is going to be and how people are going to go deploying their grades is something that's caused somewhat of a delay.

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

The other thing I'll add to that just to give you some color. We have 2 Paper PCC contracts with customers, existing, where we haven't built the facilities; and to D.J.'s point, the reason we haven't built them is because we're waiting to figure out where that paper machine is going to be moved to, and it's been sometime that we've been waiting, but we're not going to deploy the capital. So it's a different issue than just a demand base. The demand is there, the penetration opportunity of PCC still remains, but a couple of different factors that we face in China. Again, we're not just filler though, we have expanded our portfolio into other coating applications, packaging applications. And we've got a really healthy pipeline of new technologies like NewYield and FulFill that we continue to deploy. So there are other opportunities including filler -- base filler in China and the rest of Asia for that matter. That help?

Operator

Our next question comes from Rosemarie Morbelli with Gabelli & Company.

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

Just following up on this question regarding the location of the new manufacturing facilities for Paper PCC. Isn't that going to affect packaging FulFill and NewYield as well? And are you seeing an impact there?

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

It could. I do think though that some of our new technologies are -- like NewYield, are focused more at some of the established and current customers that we have. So I think those opportunities -- and we're keeping very close touch with the security of location of those facilities. So it's really around some new machines that are coming in. Some existing, but new machines that we've been looking at putting satellites. There could be some impact, Rosemarie, but right now we're keeping a close eye on our technologies with existing sites that are secure at the moment.

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

Okay, great. And you talked in your prepared remarks about $300 million worth of potential from new products. Can you help us visualize the timing of that additional $300 million?

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

We've commercialized products that have the potential for $300 million, and they do develop and they expand as they penetrate in the market. Give you some dimension, last year, $125 million of that revenue from those new products was realized. We see that growing at least 15% this year, as I mentioned in my remarks. And so we're probably halfway through that penetration, and if they continue to generate the value that we see them valuing today over the next 2 to 3 years, we think we can hit that full run rate.

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

And I presume that those particular revenues carry a higher margin?

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

Some do. We are focused on creating more and more value to customers. I'd say, probably on average similar margins, our new Bleaching Earth product is probably, potentially a little higher margin, it's a specialty product geared toward a very sophisticated consumer edible oil market. And others are -- some of them are add-ons to existing, like our Refractories business, I think I mentioned, some of our hybrid products that we're putting out are actually helping steelmakers save money, lower their cost of operations at similar pricing. So similar-type margins profile.

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

Okay. And you mentioned, also, expansion in the U.S. in the paper category. Could you give us a little more detail as to what you're doing? What is picking up here considering that production of paper is actually declining?

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

Yes, I think, I'm going to refrain from actually giving where the location and the customer is. There are expansions in the 10,000-ton range, it's as -- what's really happening is as paper mills -- we've kind of talked about it, as paper mills have shut down in the United States, some of those grades are moving through their system. Because of our position in the United States, typically we pick up that overflow at another facility and that requires us to expand it. So we're also having -- we've had some expansions over the past couple of years to support FulFill where we have higher filler, so we're putting in expansions to increase our volumes to the mill and some shifting of grades. That's where that's coming from at least in the United States.

Expansions overseas are coming more from demand growth. We're seeing demand growth in India, we expanded our facility in Indonesia due to demand growth. We're putting 2 facilities in Indonesia to support conversion and some demand growth to PCC. So it's a bit of -- it's a mix of reasons, but in the United States, it's to support some shifting paper grades mainly.

Operator

Our next question comes from Curt Siegmeyer with KeyBanc Capital Markets.

Curtis Alan Siegmeyer - *KeyBanc Capital Markets Inc., Research Division - Associate*

Can you talk a little bit more about how you characterize the market opportunity in the Pet Care market? Are there additional M&A opportunities? You talked a little bit about your pipeline of opportunities. Just kind of curious if that scenario, you'd look to grow via additional acquisitions and just sort of longer term how you view that as a fit with the company?

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

Sure. Well, I'm not going to -- I think I'm going to avoid talking specifically about other targets, but I will give you an idea why we're attracted to the market. We do see pet ownership -- domesticated pet ownership growing -- growing rather quickly in emerging markets, which is why our position in Southeast Asia and China. We see stable growth in more mature markets, but that's also the attraction. It's a very stable type of demand profile in North America and Europe. I think one of the other reasons is that we're vertical in it. The mineral that's used, the clumping nature of that cat litter is sodium bentonite or it's calcium bentonite that's activated, but it is that absorption or absorption effect that we own those mines and, we're vertical in it. And so we see attractive economic returns in that value chain when we have that position, both to supply customers in many different channels, we have the capability to supply retail outlets and so we're utilizing that capability through -- and building upon that capability through this acquisition. So it's core to our mineral. We like the economics and the demographics, I guess, of the end market, and we have the capability to serve it, serve that market and serve it globally. And so it's attractive for a number of reasons, and we think there's some value to be generated through our participation, and broader participation in the market.

Curtis Alan Siegmeyer - *KeyBanc Capital Markets Inc., Research Division - Associate*

Great. And then if I could ask just on raw materials. The impact in the quarter was almost as big as the bulk chromite impact of op income. So just curious what your outlook is for raw materials in terms of the impact going forward. If you expect that to taper off at this point or any other potential pricing actions you might be taking to mitigate that?

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

Yes, thanks, Curt. So when you take a look at it, that $6.3 million to go back to the operating income bridge, it did have in it about $1 million to $1.5 million of energy. We're really looking at a continuation of higher energy prices into the second quarter, as we look out further in the year, that may begin to mitigate, but here, over the next 3 months, expecting the energy inflation to continue. The other raw materials, the purchased raw materials, if you would, that go into many of our products, the seacoal, the coal ash and other various components, as well as the MgO that I mentioned, they're going to continue as well.

So we're expecting to see that through the remainder of the year. Now what we've done is, obviously, put in places, and I talked about all of our mitigation programs that exist and you can see by what we showed as our business performance, we're over deploying and getting ahead of the raw materials that we're facing. In Minteq that will be a little bit harder, sorry, that's the Refractories segment with the higher MgO, that's going to be impacting us in the second quarter, that's the driver of that segment going down. But we are pursuing every single angle we can to come above the raw materials.

The only other thing I'll talk about is logistics. Logistics remain very challenged for us across both the Minerals businesses. Those are higher prices in logistics that we are facing because of the tight conditions, but it's also the availability just to shift goods through preferred lanes to our customers, where we want to be on rail and having the opportunity to have the railcars that we want, where we want them, when we want them, is a bit constrained given the weather and the tight conditions in the logistics market that we've been seeing. So looking for that to free up a bit here as the weather improves over the next few months.

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

And Curt, the only thing I'll add to that is, we did see -- we are absorbing, not absorbing but facing significant raw material increases. And I think that's across the industry right now. I don't -- you're hearing a lot about logistics, you're hearing a lot about inflationary pressures. I think though it is important to note that we've done well with that this past quarter. It's a challenge, we're fighting through it, but it's also a testament to some of our positions with our customers and being able to figure out how to continue to drive value for them while facing pricing pressures. So the teams have done really well with that this quarter, and we're going continue to have to face it, we think, for the rest of the year, but I think we're well positioned to do so.

Operator

We have no additional questions at this time, so I would like to turn the call back to Ms. Buckwalter for any additional or closing remarks.

Cindi Buckwalter - *Minerals Technologies Inc. - VP of Investor Relations and Corporate Communications*

Thanks, Abby. Thank you, everyone for joining us today. We look forward to speaking with everyone again soon. Have a great day.

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

Thank you.

Operator

Ladies and Gentlemen, you may now disconnect.
