THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

MTX - Q1 2017 Minerals Technologies Inc Earnings Call

EVENT DATE/TIME: MAY 05, 2017 / 3:00PM GMT

CORPORATE PARTICIPANTS

Andrew M. Jones *Minerals Technologies Inc. - VP and MD of Energy Services*

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

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

Jonathan J. Hastings *Minerals Technologies Inc. - SVP of Corporate Development*

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

CONFERENCE CALL PARTICIPANTS

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

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

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

PRESENTATION

Operator

Good day, and welcome to the Q1 2017 Minerals Technologies Inc. Earnings Conference. Today's conference is being recorded.

At this time, I would like to turn the call over to Mr. Matthew Garth, Chief Financial Officer of Minerals Technologies. Please go ahead, sir.

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

Thank you. And good morning, everyone, and welcome to our First Quarter 2017 Earnings Conference Call. Again, I'm Matt Garth, and I'm extremely excited to serve as MTI's CFO and be a part of the highly energized and capable team we have at the company.

For today's call, Chief Executive Officer, Doug Dietrich, will provide an overview of our results, key drivers and strategies, and I will follow with a more detailed update on our financial performance.

I need to remind you that beginning on Page 13 of our 2016 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 Slide 2 here. 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.

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

Thanks, Matt. Good morning, everyone.

Now let's start today hitting some of the highlights from the first quarter and then go through the operating performance of our minerals and services businesses. I'll then take you through some of the organizational changes I recently made targeted at increasing MTI's growth trajectory.

We had a solid first quarter, posting earnings of $1.07 per share, which was a 5% improvement over last year. Sales were similar to last year, however, with 2 fewer days in the quarter, our underlying sales were up 1%, driven by the Performance Materials segment, where sales grew by 6%.

Our growth in China continues on a strong pace, with sales up 22% over last year. And as we announced earlier this week, we continued with our PCC expansion in Asia by signing a contract with Asia Pulp and Paper to add 165,000 tons of PCC capacity at their Perawang, Indonesia location. The agreement encompasses building a new 125,000 tons satellite as well as expanding our current satellite located there since 1997 by an additional 40,000 tons. This is our fifth satellite with APP, and we look forward to extending our relationship with them even further in the future.

We did have a challenging start to the year with weather conditions affecting sales and operating costs at many of our plants in the U.S. and Europe. However, a strong sales and operating performance in March led each of the business segments to double-digit operating margins for the quarter.

We generated $64 million in operating income, a record for our first quarter, and our consolidated operating margin improved to 15.7%, which is a 7% improvement over last year and the highest margin percentage for our first quarter in the company's history.

We overcame the challenges at the beginning of the quarter to, once again, improve productivity by 8% over last year, as we maintain our focus on removing waste from our processes.

We're driving operational excellence deeper into the company, and our employees remain engaged in continuous improvement activities. The number of Kaizen events, which are structured problems -- structured problem-solving forum, are up almost 40% so far this year, and the number of employee suggestions are up almost 20%.

Our safety performance continues to track toward world-class levels, with the number of recordable and lost workday injuries dropping by 30% over this time last year.

Earlier in the quarter, we realigned 2 of our business segments and combined the Construction Technologies business into Performance Materials and also began to further develop our organization in China. Much more on this later, but in short, these actions will create better alignment, improved communications and speed decision-making, all with the ultimate objective of accelerating revenue growth.

We also continued our focus on reducing debt with a $20 million principal payment made in the quarter.

This slide shows our quarterly earnings trend. And as you can see, earnings were strong at $1.07 per share, up, as I said, 5% over last year. So strong start to the year and puts us on the track for continued earnings growth this year.

This chart shows our quarterly operating income and margin over the past several years. I think it's important to note that over this period, we've not only integrated a large acquisition, but since 2015, we've also navigated some challenging end market conditions. The MTI team has successfully managed these challenges, and as a result, the company has continued on a profitability improvement track.

In perspective, we've attained and largely maintained double-digit margins in each of our businesses, and as I mentioned earlier, this quarter was a record first quarter for the company.

As we look at our 2 minerals businesses, Specialty Minerals and Performance Materials, sales were approximately the same as last year. However, adjusted for foreign exchange and fewer days in the quarter, underlying sales improved 3%. The chart on the lower right delineates the product lines contained in this segment and the relative size from a revenue standpoint.

We saw a strong growth in metalcasting, with sales improving 11% over last year, driven by China, where sales grew 46%. Growth is derived from our continued penetration of the Chinese foundry market as we demonstrate the value of our premixed blended sand systems for customers.

The penetration strategy is also taking hold in India, the second largest foundry market globally, where sales have almost doubled from last year, albeit from a smaller base.

We also continued our PCC growth in China, where sales increased 9% over last year, and the new PCC contract we just signed with APP will add 165,000 tons of capacity in Asia, which is a 12% increase of our current installed base in the region. This capacity should come online late in the second quarter of next year and provide continued PCC growth in 2018.

Operating income was slightly lower than last year but up 2% on a same-day basis, with increased profits in the Performance Materials segment, offset by reduced profits in Specialty Minerals.

Performance Materials had a strong quarter, with profits driven by higher metalcasting and bulk chromite sales, and the Specialty Minerals segment was impacted by the paper machine and mill shutdowns in North America that occurred at the beginning of last year.

Our Western U.S. mining and processing plants in both segments faced challenging weather conditions early in the quarter, as heavy rains and some extremely cold conditions impacted our mining operations, slowing things considerably.

Heavy rains in California also slowed deliveries of our waterproofing products to construction projects, but despite this, the business has rebounded with a strong performance in March, and margins for the quarter remained solid at around 17%.

We also made progress with new products and technology this quarter. We see growing interest in our NewYield technologies. We've recently launched our light-weight cat litter formulation in China.

The marketing of our environmental solutions portfolio of products in China is going well. We recently met with several potential customers, partners and government regulatory bodies to further their understanding of the potential of our technologies. Elsewhere, we're launching a new dry laundry ingredient made at one of our plants in England, and each of these new technologies and products will drive future revenue growth for MTI.

Let's take a look at our services businesses. Refractories and Energy Services, where our overall sales were lower by 6% compared to last year. This was due primarily to the exit of our onshore services of Coil Tubing, pipeline and nitrogen within the Energy Services segment back in the second quarter of 2016. And the refractory sales were similar to last year. Steel mill operating rates stable and at similar levels to 2016.

These 2 segments performed well this quarter, improving combined margins over last year. Operating income for the combined business increased 47%. Margins improved 58% to 12.6% of sales. Energy Services achieved, and has maintained, the targeted operating margin we've set forth during the restructuring last year, and Refractories continues to perform well by improving productivity and lowering costs.

Though we're not seeing any meaningful overall improvement in oil and gas markets, we are seeing some increase in well testing activity and are making progress with the deployment of our new filtration technologies. In addition, steel markets have stabilized and, more recently, improved slightly in the U.S, an environment in which our Refractories business can thrive. Both of these businesses are now well positioned for future income growth as their end market demand improves.

I mentioned on our last call that one of my main areas of focus coming into this position was to accelerate our revenue growth. I also outlined for you some of the areas that I felt needed to change to achieve this.

Over the past 90 days, I spent a large portion of my time traveling around the world, meeting with and listening to our employees to gain a better understanding of the challenges they are facing and to gain a better sense of areas where we can make improvements, become better aligned, both internally and with customers. I also spent time clearly communicating our vision and strategy, ensuring that our employees understand how they can contribute to that vision.

Through these conversations, I gained insight into a number of areas that can be improved, ways to improve communications, increase speed and decision-making and better support our businesses in the regions closer to our customers, all of which, in time, will lead to stronger revenue growth.

Subsequent to these trips, we've made a number of changes designed to address these issues. First, we created better alignment, I reorganized the Construction Technologies and Performance Materials businesses into one operating segment. We placed leaders with profit and loss responsibility over the new product lines to create the focus necessary to drive our new product offerings and better serve customer needs.

This reorganization was also done to better leverage the manufacturing platform that supports these product lines, improve play costs, leverage manufacturing talent, accelerate the deployment of operational excellence and speed the manufacturing deployment of our new product technologies.

Second, to increase speed of execution, we're further developing and enhancing our organization in China. By this, I mean we're streamlining our corporate and resource units structures in the country and creating more local leadership and focus on our product lines and customers. This will greatly enhance support and speed decision-making directly in the region, where, before, much of this came from the U.S.

Our Technology Lead Team is also setting targets to double the speed of innovation and product development across the company.

Third, more of my time will be spent focusing on both organic and inorganic growth avenues. To this end, I'll be spending more of my time with customers and working on acquisitions.

As we've spoken about before, acquisitions are a significant part of our growth strategy. And we're currently actively engaged on a number of fronts, primarily focused on minerals-based companies, where we can leverage our technological expertise.

The companies we're focusing on are both within our core end markets in minerals, plus the new minerals that will increase our presence in consumer products, environmental and agricultural markets. We've built a solid capability to identify, transact and integrate companies, one that we intend to exercise going forward.

With a solid performance to start 2017, I also thought it important that you know MTI has not changed its knitting. We'll continue to focus on creating shareholder value through our high-performing, disciplined operating culture and, through these recent changes, on accelerating revenue growth.

Now let's turn it over to Matt Garth to get you deeper into our financial performance for the quarter. Matt?

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

Thanks, Doug. This morning, I'll review our first quarter results, the performance of our 4 segments and also provide you with our outlook for the second quarter.

We delivered solid financial results in the first quarter with earnings per share of $1.07, which was 5% higher than last year. Our reported earnings were $0.97 per share due to approximately $6 million of charges associated with refinancing our floating rate debt and integration costs. Note that roughly half of these charges were noncash.

Consolidated sales were $405 million, which was 1% lower than the prior year. However, foreign exchange lowered sales by $1.7 million, and there were 2 fewer days in the first quarter as compared to last year. Excluding these factors, underlying sales were 1% higher.

Operating income increased 6% over last year to $63.5 million, with operating margins improving 7% to 15.7%, which, as Doug highlighted, is a record for our first quarter. This result was driven primarily by reduced operating expenses, lower SG&A and an 8% increase in productivity across the business.

Our effective tax rate in the quarter, excluding special items, was 24%. We expect that our full year effective tax rate will be around 25%, barring any changes made by the U.S. government to the domestic tax structure.

Cash flow for the quarter was $16 million. As a reminder, the first quarter is typically the lowest cash flow quarter of the year due to a number of onetime cash outflows such as tax and compensation payments. This year, we were also impacted by the debt modification costs mentioned earlier and the timing of receivables, which, when collected in the second quarter, should significantly improve cash flow. In addition, we expect 2017 to be another year of strong cash generation.

As highlighted on the operating income bridge, our services businesses, Refractories and Energy Services, delivered strong operating increases on a year-over-year basis. In our Minerals businesses, our strong performance in Performance Materials profitability was offset by lower income in Specialty Minerals.

Let's review the Specialty Minerals segment first.

Specialty Minerals sales decreased 6% from last year due to several North American paper mill closures that occurred in 2016. This impact was partially offset by a 9% increase in China sales due to the ramp-up of the Sun Paper satellite. As you'll recall, this 100,000-ton satellite began ramping up in the third quarter of last year, and we expect to achieve full production in the second quarter of this year. Also, given that the North American paper mill closures took place in the first half of 2016, global PCC volume and revenue growth should return in the second half of this year.

Our ground calcium carbonates and Specialty PCC product lines grew 4% and 2%, respectively, offsetting lower talc sales in the quarter. GCC sales increased due to stronger construction markets, particularly in roofing, floor tile and wall products, all -- at all of our facilities. Specialty PCC sales grew on higher sealants and adhesives used in the U.S. and European automotive, construction and consumer markets.

Operating income decreased to $24.4 million due to the lower PCC North America sales levels and higher operating costs in Processed Minerals due to the impact we had from weather. Productivity improvements of 11% across all product lines offset the adverse conditions and drove margins to 16.7%.

Looking to the second quarter, we expect Paper PCC operating income to be slightly lower than the first quarter. This is due to normal annual maintenance outages taken by our customers in North America, which typically occur in the second quarter, partially offset by increased volumes in China. In Performance Minerals, we expect an increase in operating income, as the second quarter is typically the strongest seasonal period for this business.

Overall, for the segment, we expect second quarter operating income to increase by approximately 10% from the first quarter.

Now let's turn to our Performance Materials segment. As Doug mentioned, we recently announced the reorganization of our Performance Materials and Construction Technologies businesses into one operating segment.

Sales in this segment increased 6% over last year. Sales in metalcasting increased 11%, principally due to a 46% increase in China sales. Basic Minerals sales increased 67% due primarily to higher book sales of chromite. These increases were partially offset by lower Fabric Care sales in China and lower Environmental Products and building material sales due to wet weather conditions delaying the start of several large projects in the Western United States.

Operating income increased to $28.8 million due to strong metalcasting and increased bulk chromite sales. However, challenging operating conditions in the Western United States contributed to lower mining rates, lower production volume and higher energy costs, which we partially offset through productivity.

Looking to the second quarter, we expect continued growth in metalcasting, particularly in China; improved Fabric Care sales as we begin production of a new dry laundry additive late in the second quarter; and seasonally stronger sales in the construction markets, boosting our environmental and Building Material products. However, these increases will be partially offset by lower bulk chromite sales.

Overall, for this segment, we expect operating income to increase approximately 5% to 10% sequentially, dependent on the level of chromite sales, which are more uncertain today, given the volatility in pricing and demand.

Let's now move to Energy Services. Sales decreased year-over-year by 28%, largely due to the previously mentioned exit of certain onshore service lines in the second quarter of 2016. Operating income was $2 million compared with $700,000 last year and represented 10.7% of sales as compared with 2.7% in the prior year. We are achieving the restructuring savings and target operating margin we expected based on the swift actions we took in 2016 to adjust the cost structure of this business. We believe now that this business is rightsized to meet both current and improving market conditions.

Looking to the second quarter, we expect operating income to be in line with the first quarter, as improved well test activity in our Gulf of Mexico operations will be offset by lower filtration sales.

Now let's move to the Refractories segment. In Refractories, sales increased to $70.2 million, up 1% compared to the first quarter of 2016. Higher volumes of refractories products and increased equipment sales were partially offset by lower sales in metallurgical products. As you are aware, steel mill utilization rates and global steel production levels are key indicators for this business. Both indicators have improved in the first quarter.

Steel utilization rates in the U.S. averaged 73.4% in the quarter versus 71.2% in Q1 last year, and global steel production is up 6% over the prior year. Operating income increased 33% to $9.2 million and was 13.1% of sales compared with 10% of sales last year. Operating margins improved due to higher equipment sales, cost and expense control and productivity improvements of 11%.

Looking to the second quarter, we expect the global steel market to remain stable and operating income to improve by $1 million.

Now let's review our balance sheet. This chart shows our principal debt payments and associated net leverage ratio for the past 11 quarters. Over this period, we have made a total of $500 million in debt principal payments and have reduced our net leverage from 4.5x to 2.5x currently. We expect to continue this pace of debt repayment and are still projecting to be at 2x net leverage by the end of this year.

In the quarter, we refinanced $788 million of our variable rate debt, achieving a 75 basis point reduction. And currently, our total liquidity, including our revolver and cash on hand, stands at $370 million.

So now let me summarize what we are seeing for the second quarter. In Specialty Minerals, we expect Paper PCC operating income to be slightly lower than the first quarter, as our customers take their normal annual maintenance outages. Performance Minerals will benefit from the seasonal uptick in demand. And overall for this segment, we expect second quarter operating income to be up $2 million to $3 million sequentially.

In Performance Materials, we see continued, strong performance in the metalcasting product line, particularly in China, and a stronger seasonal period in the construction markets. Lower bulk chromite sales will partially offset these increases. Overall, we expect operating income to be up $2 million to $3 million sequentially, depending on the level of chromite sales.

For Energy Services, we expect second quarter operating income to be similar to the first quarter while maintaining our targeted margins. And lastly, in Refractories, we expect operating income to be $1 million higher than the first quarter based on stable steel market conditions globally. In total, we expect a seasonally strong quarter and MTI earnings to be between $1.20 to $1.25 per share.

And now let's move to the Q&A. Operator, we're ready for a question when you are.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question will come from Daniel Moore with CJS Securities.

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

I wanted to talk about PCC. First, obviously, nice to see the new satellite and the expansion. Just talk about your confidence around the pipeline and the potential for signing additional new contracts between now and year-end. And China, specifically, it's been sometime, talk about the challenges and the opportunity there a little bit.

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

Sure. Thanks, Dan. Yes, we have -- look, let's talk about the opportunity in China, in particular. That opportunity hasn't changed. We see penetration -- potential PCC penetration in that market evolving similar to how it has in North America and Europe. That opportunity -- the opportunity there for MTI to double its PCC production from our current rates. So it has been a while in China, some challenges. But as we've mentioned on the last call, we've got a lot of increasing activity, not just in satellites and PCC filler, but across our technologies, FulFill, NewYield and some packaging. So we've got a lot of activities. Our confidence is high that this is not the first satellite this year that we'll be signing up, the last satellite that we'll be signing this year.

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

Very helpful. And then in terms of Environmental Products, talk about maybe your outlook there specifically for that end market for the rest -- for Q2 and the rest of the year.

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

Yes. We're still working on projects. We've highlighted, a couple of calls ago, our Resistex product line. We've been moving this product line into higher-margin, higher-tech products that address coal ash and red mud landfills. We've got a number of projects around the world, but a lot of the highlight has been what I mentioned in my comments in terms of some of the work we're doing in China, around the government relations and marketing with partners, explaining the technology and really taking hold. Actually, why don't I let Jon Hastings -- he's had some recent activity -- he can give you an update on some of the activity that we've recently had in China around our environmental portfolio. Jon?

Jonathan J. Hastings - *Minerals Technologies Inc. - SVP of Corporate Development*

Thanks, Doug. A couple of comments. I'll start with the GCLs. We've made some pretty strong progress in working with a variety of groups. Just 2 weeks ago, I was in China, and we attended the China-U. S. Investment Cooperation Conference. It was held in Guangdong. And during that conference, we signed an MOU with one of China's leading environmental remediation companies, and we plan to work together on pilot projects designed to prove out the utility of the technology in several applications. Riverbed remediation, we're exploring what we can do with both red mud and also coal ash. And during that conference, it was a great opportunity to meet with -- individually, with some of the senior national and provincial government officials, and we were garnering their support, not only for the projects, but also working together with the government bodies to craft industry standards and regulations that'll continue promoting some of the top-end technologies of which we are one of the major providers. We also have been working with our teams to continue developing relationships in the industries, both for red mud and also coal ash. And you'll see more of that come to fruition as we continue to proceed.

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

Yes. Dan, the only thing I'll add is that I know you're probably referring to the first quarter. We had a couple of projects delayed due to wet weather. But our outlook for this longer term, as Jon just mentioned, is very positive. One of the changes that I highlighted, that I made in combining the segments as we've put a General Manager with direct profit and loss responsibility over Environmental Products. That's new. We had something over building, construction and drilling before. Now we have 3 general managers with P&L, direct responsibility, and that's going to drive a lot more speed, product development and customer contact. The other thing we've done is we've made some changes in China with these same products, more local leadership on top of environmental and building products in China. That, tied with some of our government marketing, those things making decisions more closely to our customers in China is going to speed things up significantly. So we have a very positive outlook for Environmental Products going forward.

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

Got it. Very helpful. And maybe one more, if I could, Doug. You mentioned the number of events and suggestions are up, and I know this is more sort of qualitative, but any change -- is it changes that you've instituted since you took over? Or is it more just a function of the MTI culture sort of permeating AMCOL over a longer period of time?

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

No, I think it's not even as much about permeating AMCOL. I think that integration is complete. We have just tremendous engagement from all employees across the company. As a matter of fact, I think the number of suggestions per employee, the highest number of suggestions per employee come from our Performance Materials group, which is a former AMCOL business. So that engagement is at a very high level. To your first question, I mentioned it, MTI is not changing its knitting. We are the same company. We focus on discipline, focus on operating. But I am making a few tweaks. I'm making a few tweaks to take some of that energy and some of that -- the way we do business operationally and steer that toward higher performance in terms of revenue growth. Those are the tweaks that I'm making. So no, we're not changing the company from that standpoint.

Operator

Our next question will come from Rosemarie Morbelli with Gabelli & Company.

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

Doug, following up on the tweaking that you are doing at the moment. Looking at the next few years, I am seeing top line growth between, let's say, 2.5% and 3%. When -- so how much of an improvement on top line do you see going forward? And how long before you get to -- we can see -- stop seeing the results of what you are doing now?

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

Well, I think we have a number of opportunities. And I'll say it, and I think I've said it before, that MTI is not opportunity-challenged. We've got a number of new products, our new product pipeline. We have about $800 million worth of potential revenue in that pipeline. We've got opportunities to grow in markets around the world. I just -- we just talked about environmental products. Our portfolio of products has tremendous opportunity of growth in Asia and China, in particular, and we're working on that. So we have a number of opportunities. The tweaks I'm making are to speed that along, to begin to be able to make decisions and engage with customers in a much deeper level in those regions and not provide so much support from the United States in terms of making those decisions. We can go faster. I think the changes that I've made, I think that you'll see some of that fruit bearing this year. I think, though, some of these things are a bit longer term in terms of production, operating capabilities, manufacturing capabilities, those things will take time as we pull those products out of our pipeline and get them through manufacturing. So I think you'll see some changes this year, but I think this is more of things that'll happen next year. Also, I want to mention, so you don't forget that I mentioned in my comments that another growth avenue for the company is acquisitions. And so there's a great opportunity set for us in terms of acquisitions, and then there's, I just mentioned, the organic opportunities. So I'd like to get the growth moved into the high single digits, but I think it's going to take a little bit of time to get us there with some of the changes I just made.

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

And following up on your comment regarding M&A. What is the likelihood of us seeing an acquisition between now and the end of 2017? Are you comfortable that something could happen?

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

I guess, I'm going to shy away from giving you a prediction for this year, Rosemarie. These are -- they're tough to predict in terms of timing, as you know. What I can tell you is that we've got a lot of engagement, and we've got a nice, healthy pipeline of potential opportunities. One thing that the AMCOL acquisition did bring us is a much broader set of opportunities than we were with the legacy MTI businesses. So I mentioned we're still looking at minerals companies, where we can leverage our technology. But we like opportunities in -- where we have a lot of exposure today in consumer products, in the agriculture and in environmental markets. And I think those provide us nice platforms to grow the company. So I have a lot of confidence, but I just shy away from giving a prediction for the year.

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

And then lastly, if I may, you leveraged substantially for the AMCOL acquisition, and obviously, you have been very successful in deleveraging. Could we see the net leverage going back up to 4.5x of a -- for a few years?

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

It depends on the acquisition. I think AMCOL was unique. I think the company has shown that it's able to lever up and manage that type of debt load, but it really would depend on what we saw with the acquisition. We felt that the MTI and AMCOL combination was highly synergistic. We had a good confidence around being able to attain those synergies. And so therefore, we were comfortable being able to manage that type of cash or that type of debt level. So we have the capability of managing it. I think the type of targets that are in our pipeline right now are probably more in the $50 million to $400 million than the $1 billion type. So we wouldn't need to go to that type of leverage. But certainly, we have the capability of dealing with it.

Operator

(Operator Instructions) And we'll take our next question from Silke Kueck with JPMorgan.

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

It's Silke for Jeff Zekauskas. I was wondering whether you can explain the accounts receivable issue in the quarter. Is that related to a higher portion of the sales coming from offshore are now coming from China? And I was wondering whether you had a free cash flow target, either for the second quarter or for the year.

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

So let me give you an explanation. In that comment on the AAR, it really is -- I think what we're highlighting is it's more of a timing issue. We had a very strong March in terms of sales, and those receivables will come through in the second quarter. So the build is temporary, but it did impact at least some of the cash in the first quarter. So the first quarter is typically a low quarter. We have a lot of onetime payments that come out, but kind of exacerbating this quarter was the debt refinancing and the really strong March we saw. What we do see is that cash flow are rebounding significantly so that we'll see the first half being, on average, the same, if not better, than last year. And then for the full year, we look at another very strong cash flow year. Right now, CapEx, we're anticipating to be maybe a little bit higher than last year, given where we are with the new satellite build. So probably around $70 million to $75 million. And that should put us in a very strong free cash flow, similar to last year, position.

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

What do you think your D&A will be in this year? And what was it in the quarter?

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

D&A in the quarter was $12 million -- I'm sorry, $22 million, Silke. So it'd probably be around 90 -- low $90 million this year.

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

Then I have a question on the Refractory business. Is it -- like, I think you had very good equipment sales in the fourth quarter as well. Is that a sign that you're like winning new business? Or -- and where is it coming from? Where is this new equipment being installed?

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

We do. Typically, we have a higher fourth quarter. We take a lot of orders and build the units through the year, and we sell them in the fourth. Actually, last year, our second quarter was a really strong quarter. I think it's coming from a bit of pent-up demand that's been absent from the previous couple of years. But let me let Brett Argirakis, who's running that business, give you a little more color on what he sees in equipment.

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

Silke, as Doug pointed out, usually, our sales for equipment are pretty heavily loaded in the fourth quarter. This year, we were pretty successful in Q1. Q2 also looks healthy. And those sales are coming from, more so, our fixed installed laser units. These units are used in both the steelmaking vessel and the steel ladles. And we're also pretty heavy on its global sales, but Japan has been quite strong in Q4 and this year. But it is spread out quite a bit, and we are winning a lot of these bids throughout the world. So it's been a pretty successful business for us.

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

Did that help?

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

Yes, that is helpful. And my last question is on your raw material costs. There are energy costs, [magnesium] costs, limestone costs. I was wondering what your raw material cost curves, like, what you've seen in the quarter and how things look like going forward.

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

In general, raw materials have increased slightly. Let me give you 2 categories. One would be energy. It's starting to trend up in terms of year-over-year cost -- unit costs, specifically in the quarter, with a lot of wet whether and drying clay and unplugging shoots and things that happened in our western processing plants, we are using a lot of -- we use a lot of energy. So it was an impact, specifically from a consumption standpoint in the quarter. But unit costs are starting to rise a bit in terms of natural gas in some of raw oil and propane. The other area that's been a benefit over the past couple of years is magnesium oxide, which we use to make our Refractory products. You've probably read a little bit about what's going on in China, where the government is shutting down a number of kilns that actually make -- that burn magnesium. And that's taking a lot of capacity out in China. And so there's been some pressure on upward movement in our magnesium oxide costs. That said, as you know, we've developed a pretty diverse base of MGL supplies around the world, and we leverage that to manage that cost. But those are 2 areas that I'm seeing. Our clay costs and our ore costs are largely internal, and we manage those costs. And actually, we've had some significant improvements in our clay mining and our ore, talc and Ground Calcium Carbonate mining over the past several years. That's a lot of where this productivity that we're showing you is coming from or a large portion of it. So those are 2 areas I can give you, where raw materials are probably inching upward.

Operator

(Operator Instructions) And we'll now take a follow-up from Daniel Moore with CJS Securities.

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

Little housekeeping, but Matt, how should we post the refi? How should we think about the book level of interest expense, including any amortization on a quarterly basis going forward?

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

Yes. So in the quarter, interest expense was about -- got it right here, let's see. Interest in the quarter was about $12 million. Going forward, we would expect the savings from the 75 basis point reduction to benefit us a little bit, but you have to keep in mind what happens to LIBOR rates. So just on the reduction alone, we'd expect a $6 million annual savings, but LIBOR rates are going to eat into that, especially as they've been rising. So a more equal go forward rate would probably be in the 10% to 11% range.

Operator

We'll also take a follow-up question from Rosemarie Morbelli with Gabelli & Company.

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

I was wondering if you could talk about what is behind the decline in talc. Is it a question of comparison? Or is it something else?

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

No. I think there's -- a bit of it has been some of the weather we had. We're impacted by some shipments in railcars and difficulties in the quarter. That's a piece of it. We've had a little bit lower consumer product sales in the quarter. We sell talc into a number of different food and farm applications, and those were lower in the quarter as well, but nothing significant. We've seen sales strengthen through March, and that's continued into April. So we see that rebounding in the second quarter.

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

Okay. And then lastly, on the energy side, you were talking about $20 million quarterly as being what the ongoing rate until the oil and gas market picks up. You are slightly lower. I was just wondering if it is just a rounding error or if there are some specific factors, which caused that first quarter to be below whatever your trend line is anticipated to be.

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

Yes. When we restructured this business, we restructured around a set of revenue that we felt sustainable globally. And that revenue, just to remind you, is largely almost 100% offshore, with the exception of our onshore business in Saudi Arabia. We modeled that at the time to be $100 million or thereabouts. And so we wanted to make sure we generated a 10% margin when we set up the business to generate 10% margin annually over those sales. It has come down a little bit since then. There's been -- the offshore market has been a little bit -- has been behind the onshore market from a rebound standpoint. But I'll give you one statistic that we're not -- but putting overly optimism out there, but our well testing business put up its highest first quarter since 2014 in terms of sales. We were up 78% on a year-over-year basis. And now we're not -- that generally leads to some higher filtration business. We haven't seen that yet, so we're not predicting any type of major rebounds in our offshore markets, but that's a good sign. And so we think that we'll be growing back up into that $100 million range. And as I mentioned, this business, when we set it up, we left the people, the locations and the positions around the world and capital equipment in place to generate another $100 million in revenues. So there's headroom, another $100 million in this without having to add a lot of fixed cost, and the contributions of these product lines are pretty high. So when it happens and when it happens, we'll generate some higher profitability, higher profits in Energy Services.

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

And the filtration usually follows the well testing by, what, by a quarter, 6 months gap? Any idea?

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

Tell you what, let me give Andrew Jones here. He's going to give you a little bit more color on how this works offshore.

Andrew M. Jones - *Minerals Technologies Inc. - VP and MD of Energy Services*

Rosemarie, just to look at both well testing and filtration. Filtration is tied directly to infrastructural projects, meaning new platforms offshore. They're very much tied to the price of oil, getting above $60 a barrel, whereas our well testing work is very much tied to the rig count offshore. So in that case they're a little bit different, but generally, there's about a 6-month gap that we see between pull-through from filtration and well testing services. So hope that helps to decouple for you the market there between the rig count and the infrastructural projects that, today, are not happening because of the price of oil. But we still see pressure on the filtration market.

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

Let me add one thing to that, Rosemarie. It doesn't require well test to get filtration. Those are -- they are coupled. That's why we've kept these 2 together. We do have some new technologies. We have an expertise in deciphering and understanding and helping customers with their produced water issues. We have some technologies that we're taking offshore into some of our floating production vessels that can tackle some challenging water conditions. And that's been -- that leads to both filtration service work but also capital sales work, which is part of that filtration business. So they are -- they can be separate, but one can lead to the other. But typically, as you get well test activity, as Andy mentioned, that will lead to higher filtration sales 6 months down the road.

Operator

(Operator Instructions) And it does appear we have no further telephone questions at this time. I'd like to turn the conference back over to Mr. Garth for any additional or closing remarks.

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

Thank you very much for joining our conference call, and we will talk to you again next quarter. Thank you.

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

Thank you very much.

Operator

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