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- **F. Nicholas Grasberger** *Enviri Corp - Chairman of the Board, President, Chief Executive Officer*
- **Tom Vadaketh** *Enviri Corp - Chief Financial Officer, Senior Vice President*

CONFERENCE CALL PARTICIPANTS

- **Operator**
- **Aadit Shrestha** *Stifel Financial Corp. - Analyst*
- **Larry Solow** *CJS Securities, Inc. - Analyst*
- **Rob Brown** *Lake Street Capital Markets, LLC - Analyst*
- **Davis Baynton** *BMO Capital Markets - Analyst*

PRESENTATION

Operator

Good morning. My name is Tasha, and I'll be your conference facilitator. At this time, I would like to welcome everyone to the Enviri Corporation's second quarter release conference call. (Operator Instructions)

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I would now like to introduce Dave Martin of Enviri Corporation. Mr. Martin, you may begin your call.

Dave Martin *Enviri Corp - Vice President of Investor Relations*

Thank you, Tasha, and welcome to everyone joining us this morning. I'm Dave Martin from Enviri. With me today is Nick Grasberger, our Chairman and Chief Executive Officer; and Tom Vadaketh, our Senior Vice President and CFO.

This morning, we will discuss our results for the second quarter of 2024 and our outlook for the remainder of the year. We'll then take your questions. Before our presentation, let me mention a few items. First, our earnings release and slide presentation for this call are available on our website.

Second, we will make statements today that are considered forward-looking within the meaning of the federal securities laws. These statements are based on our current knowledge and expectations and are subject to certain risks and uncertainties that may cause actual results to differ from those forward-looking statements.

For a discussion of such risks and uncertainties, see the Risk Factors section in our most recent 10-K and 10-Q. The company undertakes no obligation to update any forward-looking statements.

Lastly, on the call, we will also refer to adjusted financial results that are considered non-GAAP for SEC reporting purposes. A reconciliation to GAAP results is included in the earnings release as well as the slide presentation.

With that being said, I'll turn the call to Nick.

F. Nicholas Grasberger *Enviri Corp - Chairman of the Board, President, Chief Executive Officer*

Thank you, Dave, and good morning, everyone. Q2 was another strong quarter for Enviri as each of our three segments performed above our expectations in terms of cash flow and adjusted EBITDA. Consolidated EBITDA increased 7% versus Q2 of last year, despite the adverse impacts of a strengthening US dollar and the benefit of the Stericycle settlement in last year's figure.

EBITDA margin of 14% was about 1 point higher than a year ago, and free cash flow was $60 million higher. In terms of our outlook for the full year, we are not changing our earnings guidance as we expect the impact of a strong US dollar to offset the impact of better performance from our businesses.

Our financial leverage continues to decline, debt-to-EBITDA is now below 4 times for the first time since 2020 and is on a path to our target of 2.5 times in a few years as we discussed at our recent Analyst Day in Philadelphia.

We expect cash flow to steadily rise to $150 million per annum over that period due to EBITDA growth, reduced interest and pension expenses and the runoff of our ETO contracts and Harsco Rail, which will begin to turn cash positive as the vehicles are delivered.

We recently noted that we're targeting an incremental $50 million to $75 million of cash proceeds this year from asset sales. At the end of Q2, we generated nearly $40 million against this goal. Q2 was also a record quarter for Clean Earth with EBITDA of $38 million and EBITDA margin of 16%. These were the highest of any quarter since we combined Clean Earth and the ESol business in 2020.

The execution in the business was very impressive as pricing actions and efficiency gains across a number of initiatives are driving the growth and margin expansion. To repeat the main theme of our Analyst Day, we believe we are still in the early stages of creating value in the Clean Earth segment with future catalysts, including PFAS remediation, the deployment of common IT systems or restructuring of our commercial organization and M&A.

Harsco Environmental had a solid quarter with EBITDA growth of 5% to 10% versus the same quarter a year ago when adjusting for the impact of currency, the sale of a small business and one-time severance costs related to two site exits. Both mill services and eco products contributed to this growth.

These positive results were achieved despite anemic steel production levels, particularly in Europe. HE is also doing an excellent job of improving cash flow through both working capital and capital spending initiatives. Year to date, free cash flow in HE of $55 million, it's more than double the figure generated through the first six months of last year.

Harsco Rail also delivered healthy growth in both EBITDA and EBITDA margin in the second quarter for the core business. Demand is steady and our operational performance is improving. We expect a $9 million EBITDA charges that we booked in Q2 to be offset in the second half of the year as we conclude negotiations with a few key customers related to relief of uncontrollable cost overruns and delivery delays.

After exploring options to divest the business, we are now focused on growing the core business and executing the remaining ETO contracts. At this point, we believe the delivery of the initial vehicles on the two large ETO contracts in a couple of years will be the catalyst for the successful sale of the business.

We also recently released our 5th annual ESG report. This report outlines our ambitions, our goals, the impact metrics across our focus areas, which include innovative solutions, a thriving environment, safe workplaces and inspired people.

For 2023, I'm proud to highlight that our total recordable incident rate was 0.8, making us one of the safest companies in the industry. We also recycled or reused 19 million tons of waste with HE recycling or reusing 93% of processed steel slag and Clean Earth recycling or reusing 91% of processed waste. We believe these facts illustrate how we are solving the most complex environmental challenges faced by our customers.

I will now turn the call over to Tom.

Tom Vadaketh *Enviri Corp - Chief Financial Officer, Senior Vice President*

Thank you, Nick, and good morning, everyone. The Enviri team again delivered strong quarterly results in Q2. Revenues increased 6% on an organic basis and adjusted EBITDA grew 7%, driven by record results for Clean Earth had a nice year-on-year improvement for Rail. Our cash flow was better than anticipated, and our covenant leverage ratio decreased further to below 4 times for the first time since mid 2020.

Now, let me comment on our second quarter performance further, starting on slide 4. In the second quarter, revenues totaled $610 million, relatively flat versus the prior year on a reported basis, but 6% higher on an organic basis after adjusting for FX translation impacts, the sale of the Performix business, the favorable Stericycle settlement in 2023 and forward loss adjustments in Rail for our three large engineered order European contracts.

Adjusted EBITDA was $86 million, an improvement of 7% year-on-year and 10% sequentially. With this being our highest quarterly adjusted EBITDA since the acquisition of ESol and the impact of COVID in 2020. Our year-over-year earnings growth was driven by Clean Earth and Rail as anticipated.

Our adjusted earnings were also modestly above our prior guidance range for the quarter, with all three operating segments contributing to the better than anticipated outcome. Our adjusted earnings per share was $0.02 for the quarter.

Free cash flow for the quarter was $9.5 million versus a deficit of $51 million in the prior year quarter with a year-on-year improvement, reflecting better working capital performance as well as some timing benefits in both capital spending and working capital movements.

Lastly, here, our covenant leverage ratio improved to 3.9 times from 4.1 times in Q1 as I mentioned. This change was driven by both lower debt as well as higher trailing EBITDA. In addition to the free cash flow generated in the quarter, the lower net debt also reflects our continued focus on debt reduction.

As previously disclosed, we monetize the remainder of our notes receivable related to the sale of our IKG business, generating $17 million in the quarter. And we sold our Performix Metallurgical Additives business in Q2 for net proceeds of also $17 million.

Please turn to slide 5 and our Harsco Environmental segment. Segment revenues totaled $293 million, up 1% compared with the prior year quarter, net of an $8 million FX translation impact. Adjusting for the FX impact and the sale of Performix, organic growth for HE was 6%.

Adjusted EBITDA for the quarter totaled $49 million, which as expected was modestly lower versus the prior year. The favorable impact from higher demand and pricing was offset by FX, the sale of Performix, a less favorable business mix and certain administrative costs, including severance and compensation.

Next, please turn to slide 6 to discuss Clean Earth. For the quarter, revenues totaled $236 million, up 2% versus the prior year, and adjusted EBITDA increased 10% to reach $38 million. This was a very strong quarter for CE with the business delivering revenue and EBITDA growth despite the favorable impact of the Stericycle settlement in Q2 of 2023, making for a difficult comparison.

CE reached record profitability in Q2 with its highest ever EBITDA of $38 million and highest-ever margins of 16%. This earnings performance was driven by both price and volumes as well as lower operating costs and efficiency initiatives.

As anticipated volumes were mixed as CE faced a very difficult comparison quarter in 2023 that included strong project related volumes. Healthcare, retail and soil dredge volumes were higher this year versus the 2023 quarter, and this growth was offset elsewhere, mainly due to lower project work. Hazardous materials revenues totaled $195 million, while soil dredge revenues reached $41 million for the quarter.

Now please turn to slide 7 and our Rail business. Rail revenues totaled $81 million and adjusted EBITDA totaled $7 million in the second quarter. This EBITDA total excludes forward loss adjustment of $9 million related to our three large ETO contracts in Europe. As we've said before, these contracts are long-term in nature with some equipment deliveries lasting through 2027.

We are continuing to work to stabilize these projects. And as we saw in Q2, we could occasionally see additional charges as we fine -tune our cost estimates to complete the projects. We're also making good progress with our contract negotiations with our customers.

As we have done in the past, we will be excluding both the charges from additional forward loss provisions as well as any favorable impact from contract negotiations from adjusted EBITDA. Excluding the impact of these three contracts, Rail's Q2 adjusted earnings were the highest in a few years with a year-on-year growth in earnings coming from higher base equipment and services demand.

The decline in revenues versus the prior quarter was driven by the favorable forward loss adjustment from our ETO contracts in the UK in Q2 of 2023. While we are excluding the impact of these adjustments from EBITDA, they cannot be excluded from revenues. These adjustments negatively impact the revenue comparison by approximately $15 million versus the 2023 quarter.

Now let me turn to our updated 2024 outlook on slide 8. Enviri's full year adjusted EBITDA is now expected to be within a range of $327 million to $340 million. Our midpoint is unchanged from May guidance and continues to point to year-over-year growth of approximately 9%.

Also relative to our May guidance, our better-than-expected Q2 results are offset by FX translation impacts in HE for the balance of the year. Otherwise, our outlook is largely intact. Our detailed segment outlook can be found in the appendix of the presentation.

This EBITDA range now translates to adjusted per share guidance of between $0.07 and a loss of $0.09. And we're still targeting adjusted free cash flow of $10 million to 30 million. The cash flow upside in Q2 was largely timing related and our outlook for the year remains unchanged. This outlook reflects the collection of some overdue receivables from a customer in China. There is some risk with the timing of these collections, which is reflected in the relatively wide cash flow guidance range.

Let me move on to slide 9 now with our third quarter guidance. Q3 adjusted EBITDA is expected to range from $85 million to $92 million. Harsco Environmental EBITDA is anticipated to be similar to Q3 2023.

With the benefit from higher prices and volumes being offset by FX translation impacts and the sale of our Performix business in April, Clean Earth's EBITDA is expected to be above the prior year quarter. Here higher prices and cost improvements are expected to drive the earnings growth.

And Rail EBITDA is projected to increase year-on-year due to higher standard equipment and technology demand. Lastly, on Q3, I'd note that free cash flow in Q3 is anticipated to weaken from Q2 due to some of the timing benefits we saw in Q2.

Finally, on our balance sheet, we've made considerable progress to reduce our covenant leverage and getting to below 4 times is an important milestone. This remains a key priority for us, and we will continue to review opportunities for additional asset sales this year. And as communicated at our recent Analyst Day, our goal is to get to below 3 times in the coming years.

Thanks. And I'll now hand the call back to the operator for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Aadit Shrestha, Stifel.

Aadit Shrestha *Stifel Financial Corp. - Analyst*

Hi, Nick and Tom, thanks for taking the questions. Just on HE adjusted EBITDA margin, I mean it came in below your expectations, usually the 18% to 20%. I think average margin in the first half is around 16%, 16.5%.

How do you -- maybe you can walk us through how you get to the 18% implied margins within the outlook for FY24? And what do you see in second half '24 that could get it to that level?

Tom Vadaketh *Enviri Corp - Chief Financial Officer, Senior Vice President*

Well. In the first half, as we mentioned, in addition to the FX pressure this year, we did have some more unusual items, there are some severance costs, et cetera. And so, we expect over time -- we don't expect to see those again in the second half that we won one piece.

There will still continue to be some FX pressure, but that won't affect margins because it affects both revenue and EBITDA. And we expect the second half to be more normal. So the business, we continue to feel comfortable that it will be in that 18% to 20% range.

F. Nicholas Grasberger *Enviri Corp - Chairman of the Board, President, Chief Executive Officer*

We also have a few relatively large sites in HE that have been underperforming for 18 months. They are improving and we expect that ramp of improvement to increase in the second half and that has a fairly sizable impact on the margin in the second half as well.

Aadit Shrestha *Stifel Financial Corp. - Analyst*

Okay, great. Thank you. So just looking at -- for sale, you said you received $40 million net proceeds to date from the asset sales, you are trying to get to $50 million to $75 million, what else is up for sale at this point?

Tom Vadaketh *Enviri Corp - Chief Financial Officer, Senior Vice President*

Yeah. Obviously, as you'd imagine, I wouldn't want to comment on any specifics, but we are looking at opportunities to continue to monetize some assets. So we still have our eyes set on that $50 million to $75 million range and quite pleased with the progress made so far through the first half.

Operator

Larry Solow, CJS Securities.

Larry Solow *CJS Securities, Inc. - Analyst*

Good morning, everybody. Nick, could you just clarify, obviously, Rail had a really nice quarter, especially relative to last year. Could you just -- I guess two clarifications or questions? So the growth you said obviously better demand on equipment and service. I assume that's all domestic demand.

And then I guess the next question is, are you -- the difference between this year and last year, is there a lower adjustment on the ETO contract less losses in EBITDA. I'm just trying to figure that. Is that also make up some of the difference or no?

F. Nicholas Grasberger *Enviri Corp - Chairman of the Board, President, Chief Executive Officer*

Yeah, sure. So let's break it into two pieces. The core business in Rail and the ETOs. In the core business standard equipments, aftermarket and our contracted services are all up, a good bit year over year. So that's certainly helping. And in our reported numbers exclude the ETO charges on the largest three contracts.

The other ETOs which are included in the core income -- the performance of those year over year is better. But I'd really point to the core business and the improvement in really each of the segments, the product segments and services within the core is doing better year over year.

Tom Vadaketh *Enviri Corp - Chief Financial Officer, Senior Vice President*

So the charges on the large ETO contracts we have been excluding consistently from the adjusted EBITDA both last year and this year. So those, yes, they are much lower this year than last year, but that's not contributing to this growth. The growth is coming from the underlying core base business.

Larry Solow *CJS Securities, Inc. - Analyst*

Got it. And then the cash flow, you said, Tom, is improving -- it's still negative, but it's improving. I guess as the ETO losses has declined, is that right?

Tom Vadaketh *Enviri Corp - Chief Financial Officer, Senior Vice President*

Yeah. I mean, just the -- beyond the Numbers, what's happening right now is we have these long-term contracts that deliver the vehicles, and we are building the vehicles right now. And so, that is a cash use period, and we'll start generating cash on these contracts when we start delivering these vehicles as Nick said, in a couple of years or so.

So until then, they're in a negative period, but it will become progressively less negative as we go forward. This year, we haven't talked about specific numbers but that's what's driving the negative outlook we've shared before on Rail. The underlying business pretty much throws off cash in line with EBITDA or cash earnings.

Larry Solow *CJS Securities, Inc. - Analyst*

And then just switching gears. Clean Earth, really strong quarter. Obviously, you're back at the price benefit you had last year. In Q2 last year, it looks like EBITDA grew over 25% if my estimates are right. Can you just give us a little more color there in terms of revenue, underlying revenues, volume versus price and what -- feels like volume is continuing to grow and where are you getting -- seeing some of those volumes? Is it retail, industrial, healthcare? Can you give us a little bit of a cross-sectional view?

F. Nicholas Grasberger *Enviri Corp - Chairman of the Board, President, Chief Executive Officer*

Sure. So in Q2, Larry, underlying volume was relatively flat. We've seen good growth in healthcare, but some of the larger projects in the so called M&I segment and also in the soils business, while they're in backlog, they haven't yet started. That's the lumpy part of this business as you know.

So we -- hazardous soil projects are very high margin. We have a difficult comparison in Q2 to those projects. Also, some of the -- soil and dredge, I guess was up a good bit in Q2 that the comp gets tougher in the second half of the year for them.

But the underlying -- and then in the retail, the staff count is about the same but the volume coming out of retail is a bit soft. And that, of course, is a known trend in the US for the retail segment. So again, relatively flat. If you would account for the project work comparison year-over-year, the rest of the volume is up a little bit.

Operator

(Operator Instructions) Rob Brown, Lake Street Capital Markets.

Rob Brown *Lake Street Capital Markets, LLC - Analyst*

Good morning. Just wondering about the Clean Earth revenue growth. I think at Analyst Day, you talked about that being a bit of a higher growth opportunity, can you give a sense and how you see that growth playing out over the next year or two? And should we see that volume and pricing to get into the double digits in terms of growth?

F. Nicholas Grasberger *Enviri Corp - Chairman of the Board, President, Chief Executive Officer*

No. Rob, our view hasn't changed. Again, this parts of the Clean Earth business can be relatively lumpy. And that's what we're saying. As we highlighted during our Analyst Day, we continue to expect volume growth in the low to mid single-digits in Clean Earth over time. I think the demand is there. Certainly, the backlog is growing, but these projects quarter to quarter tend to have a sizable effect on the year-over-year comparison.

Rob Brown *Lake Street Capital Markets, LLC - Analyst*

Okay. Makes sense. And then you alluded to the operational improvements you're working on that can help margins expand even further, but what's sort of the timing on those? I'm referring specifically to the IT platform and sales integration?

F. Nicholas Grasberger *Enviri Corp - Chairman of the Board, President, Chief Executive Officer*

You're referring to Clean Earth?

Rob Brown *Lake Street Capital Markets, LLC - Analyst*

Yes.

F. Nicholas Grasberger *Enviri Corp - Chairman of the Board, President, Chief Executive Officer*

Yeah. So there are a number of them. I think we've made dramatic improvements in the last couple of years in the efficiency of our logistics network and where we transport and process waste. So I think that is a key driver of efficiency. We have also in the facilities a number of initiatives around containers and the flow of materials that have served to improve efficiency as well.

So there are any -- there probably a dozen different projects that have contributed to that. I don't yet believe that we're reaching diminishing returns. I reference a major initiative to move to a common IT platform in Clean Earth and we had a major milestone in the second quarter where one of our largest facilities converted over to that system really without any glitches.

So it gives us a lot of confidence in the further rollout of that system and that system will serve to shorten lead times, response times to customers that will result in lower overhead for the business. So the cost reduction initiatives to date in Clean Earth to focus mostly on the cost of delivering the services. The SG&A reduction is still ahead of us.

Operator

Davis Baynton, BMO Capital Markets.

Davis Baynton *BMO Capital Markets - Analyst*

Hi, good morning. So just looking at the Rail segment results, can you please provide some additional color on the ETO contract adjustments? So in the Q1 commentary, you had mentioned that these were weighing on the Rail operations, which was part of the thought process behind postponing the sale.

I know, this morning, you mentioned that the delivery in a couple of years will be the main catalyst, but does recognizing these adjustments help move the needle at all there?

Tom Vadaketh *Enviri Corp - Chief Financial Officer, Senior Vice President*

I'll take that. Hi, it's Tom Vadaketh. I mean, yes, I think you could think of it in that way. We are progressively as each quarter goes by getting more accurately for like, we have more visibility into what it's going to take to build out these vehicles.

If you imagine, these are highly engineered, highly complex pieces of equipment with thousands of SKUs that go into each one and these have been have occurring over a period when we had COVID and then supply chain issues, et cetera.

And so, because of all of that, some of the original estimates that we had to build these out have turned out to be insufficient. I think we are getting to the back end of these adjustments, frankly. We took a loss last year particularly in Q4 as you know.

We didn't have much in Q1. In Q2, we had about $9 million worth. So I do think they're trailing off, but we still have a few years to go before we complete the deliveries. So that's my remarks that there could be a few more, but I do think we're trailing off.

In terms of -- I think you were saying, is this a green light to future divestiture? I think I'd go back to what Nick said in his prepared remarks. Once we start delivering these vehicles, we'll probably feel a little bit better about the stability of the contracts. And potentially then at that point, we could consider whether we will start the divestiture process.

Davis Baynton *BMO Capital Markets - Analyst*

Okay, great. Thank you. And then just quickly on the rollout of that IT system in Clean Earth, do you have any visibility into how long that could be to see some other SG&A cost reductions?

F. Nicholas Grasberger *Enviri Corp - Chairman of the Board, President, Chief Executive Officer*

I think that's likely going to be in the latter half of 2025.

Davis Baynton *BMO Capital Markets - Analyst*

Okay. Thank you. I'll turn it over.

Operator

This concludes the question-and-answer session. I would like to turn the conference back over to Dave Martin for any closing remarks. Please go ahead.

Dave Martin *Enviri Corp - Vice President of Investor Relations*

Thank you for joining the call. Please feel free to contact me with any follow-up questions. And lastly, we appreciate your interest in Enviri and look forward to speaking in the future. Thank you.

Operator

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

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