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NVRI.N - Q1 2026 Enviri Corp Earnings Call

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CORPORATE PARTICIPANTS

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

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

Russell Hochman *Enviri Corp - President, Chief Operating Officer, Incoming Chief Executive Officer - New Enviri*

Tom Vadaketh *Enviri Corp - Chief Financial Officer*

Pete Minan *Enviri Corp - Incoming Chief Financial Officer - New Enviri*

CONFERENCE CALL PARTICIPANTS

Robert Brown *Lake Street Capital Markets LLC - Analyst*

PRESENTATION

Operator

Good afternoon. My name is Chuck, and I'll be your conference facilitator. At this time, I would like to welcome everyone to the Enviri Corporation first quarter 2026 earnings release conference call. (Operator Instructions)

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Your participation indicates your agreement. I would now like to introduce Mr. Dave Martin of Enviri Corporation. Mr. Martin, you may begin the call.

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

Thank you, Chuck, and welcome. Welcome to everyone joining us this afternoon. With me today is Nick Grasberger, our Chairman and Chief Executive Officer; Russell Hochman, our President and Chief Operating Officer and incoming CEO of New Enviri; Tom Vadaketh, our Senior Vice President and Chief Financial Officer; and Pete Minan, the incoming CFO of New Enviri.

Today, we will discuss our results for the first quarter as well as our outlook for Harsco Environmental and Rail. After our prepared remarks, we will take your questions. Our quarterly earnings release and slide presentation for this call are available on our website.

During today's call, we will make statements 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 materially 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 as updated in subsequent 10-Qs. The company undertakes no obligation to revise or update any forward-looking statement.

Lastly, on this call, we will 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 today, as well as the slide presentation.

I'll now turn the call to Nick to begin his prepared remarks.

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

Thank you, Dave, and good afternoon, everyone. Let me start with a brief status update on the Clean Earth sale and spin-off of New Enviri. Last week, our shareholders voted to approve the Clean Earth sale, and the Form 10 filing related to New Enviri spin-off was approved by the SEC and declared effective. As a result, we have now cleared the key regulatory milestones for both the sale and spin-off transactions and expect to close in approximately three weeks or June 1, which is in line with our anticipated timing.

We will announce the cash payout to shareholders from the Clean Earth sale shortly prior to closing. Our cash conversion range remains \$14.50 to \$16.50 per share. We are working diligently through the details related to the payout and won't comment further today on potential outcomes.

With the Clean Earth sale closing soon, this will be my last earnings call with Enviri. It has been a privilege and a pleasure to lead this company over the past 12 years. The professionalism displayed across the company over the years has been unmatched, and I'm grateful for the hard work and consistent support of our employees and our Board. I'd like to recognize the employees of Clean Earth and our entire Enviri team for their efforts and dedication in creating a better business and completing this successful yet complex transaction. It certainly provides a great outcome for our shareholders, and I wish the Clean Earth team well, and I'm confident they will thrive as part of Veolia.

I'd also like to recognize Tom Vadaketh, who will be leaving Enviri when the transaction closes. Tom has been a driving force behind the tremendous value creation for our shareholders during his 2.5-year tenure. Tom is liked and respected by all, and I simply cannot imagine a better partner for me and our colleagues during his time with our company.

With that said, there is more value to be created here through New Enviri and under the leadership of Russell. New Enviri's implied valuation today is compelling, and we believe Harsco Environmental and Harsco Rail have attractive earnings growth potential. These are strong businesses poised to improve as demand rebounds in their respective markets. Margin growth for each will be further supported by the initiatives contemplated by Russell and team. New Enviri is in very good hands, and I look forward to watching its continued progress as a sizable shareholder.

Russell, Tom, and Pete Minan will comment further on Q1, our outlook, and our priorities. Now over to Russell.

Russell Hochman - *Enviri Corp - President, Chief Operating Officer, Incoming Chief Executive Officer - New Enviri*

Thank you, Nick, and good afternoon, everyone. Harsco Environmental and Rail started the year with positive momentum, each exceeding our expectations as a result of better volumes, positive operational execution, and prudent cost management. I'm optimistic about what's ahead for New Enviri.

Harsco Environmental and Rail are market-leading, attractive businesses that we believe are at an inflection point. New Enviri will benefit from a strong capital structure and with less burden from related interest costs. And we're confident our internal actions will drive margin improvement. As market conditions improve, we'll be even better positioned to drive earnings and cash flow growth, further reduce debt, and continue to enhance shareholder value.

Next, I'll provide an update on my key priorities. These include our deep dive business review of both Harsco Environmental and Rail, aimed at driving self-help improvement initiatives to boost business performance over the coming quarters and years, and the de-risking of Rail's ETOs.

Our review is ongoing at an accelerated pace. We're working to refine our business strategy and priorities, as well as to identify levers to reduce our complexity and drive operational excellence. Through this process, we are challenging ourselves to think critically about our business approach and best practices, and importantly, to make often difficult decisions that will position us to achieve our goals.

In Harsco Environmental, we're focused on initiatives that will improve our site-level productivity and maintenance efficiency, as well as opportunities to optimize our SG&A and support costs.

In Rail, additional initial restructuring is underway. We're taking actions to improve our supply chain and reduce inventory. We're prioritizing Rail's aftermarket business, where margins are attractive and significant opportunities exist, as well as evaluating other capital-light business opportunities. And we continue to evaluate further actions to optimize our manufacturing operations and reduce our global footprint and SG&A costs.

Overall, I am pleased with our progress through this review and encouraged by the engagement and commitment of our people. We'll have more to communicate on this initiative in the months ahead. Our goal is to show demonstrable progress in 2026 and head into 2027 with key implementation programs in place.

With regard to Rail's European ETO contracts, I'll reiterate that reducing or minimizing our ETO risk is critical and a top priority for me in 2026, and we are on track to meeting this commitment. For SBB, most of the first group of vehicles has been delivered and accepted by the customer. The remaining 2 of 48 vehicles are expected to be accepted by the customer in the coming months. Homologation for the second vehicle type has started, and we expect to complete that process in early 2027. Overall, we believe that we're in a good position on the SBB contract, and that its risk profile has improved drastically in the past year. As a reminder, we anticipate turning cash positive in 2027 for this project.

For our contract with Deutsche Bahn, the first three vehicles are progressing as we look for ways to maximize net cash flows and otherwise de-risk the contract. For Network Rail, we are actively engaging with our customer to improve the financial outlook for the contract and/or otherwise minimize the volatility and risk. This de-risking is among the highest priorities for New Enviri. The opening capital structure for New Enviri will provide us with the financial flexibility to pursue any and all de-risking options.

I'm optimistic about what we can accomplish over the next year, and I'm extremely confident in our team. With the fresh start provided by the Clean Earth transaction to optimize our capital structure, there is considerable value creation potential at New Enviri, and we're laser-focused on priorities that will maximize this opportunity.

Lastly, let me officially welcome my former colleague, Pete, back to the team. Pete knows Harsco Environmental and Rail very well, and he has already been a valued leader in the formation of our strategy for New Enviri. I cannot imagine a better partner for me and our colleagues during this exciting time.

I'd also like to acknowledge Nick and Tom as they prepare to depart the company. Tom joined the company during a time of considerable uncertainty, successfully leading numerous financial and strategic initiatives and contributing to the transaction soon to be completed. He has been a great partner to me during his time with Enviri.

Nick, of course, has been the visionary leader of this company for more than a decade. He brought stability to Enviri and instituted strategic direction, business process, and core values, all of which made a better company. I am grateful to have served with Nick, and I'll benefit from my experience with him as we enter the next phase of growth under New Enviri.

Now let me turn it over to Tom to discuss the quarter in detail.

Tom Vadaketh - *Enviri Corp - Chief Financial Officer*

Thank you, Russell, and good afternoon, everyone. I'll briefly review the first quarter results and then hand it over to Pete to comment on the outlook.

Please turn to our first quarter performance details starting on slide 4. In the first quarter, total revenue was \$550 million and adjusted EBITDA was \$65 million.

Revenues were unchanged from the prior year. Adjusted earnings for Harsco Environmental and Rail were little changed year-over-year, while Clean Earth results were impacted by lower volumes. Our adjusted diluted earnings per share was \$0.10 for the quarter. The unusual items in the quarter included strategic costs connected to the sale of Clean Earth and the spin-off of New Enviri, as well as costs related to Rail restructuring, which we have mentioned previously.

Lastly, our adjusted free cash flow for the quarter was a negative \$6 million during a traditionally weak cash quarter for the company. Cash performance for Harsco Environmental and Rail did improve from the prior year, although Rail remains a consumer of cash. Rail's negative cash flow was \$18 million, which is largely attributable to its ETO contracts.

Please turn to slide 5 and our Harsco Environmental segment. Segment revenues totaled \$257 million, an increase of 6% compared with the prior year quarter, and adjusted EBITDA totaled \$38 million, exceeding our expectations for the quarter. The year-over-year earnings change reflects the volume from new sites, higher services demand, and operational improvements at existing sites, as well as FX benefits.

Customer steel output was up modestly, with higher output in India and the Middle East, mostly offset by lower production in Europe. These favorable impacts were offset by contract exits, lower eco-product volumes, and a change in business mix.

Lastly, the trade measures to further support the EU steel industry continue to progress. Alignment on the quota and tariff changes was achieved in mid-April, and formal endorsement is expected later in May, with implementation anticipated in July.

Now please turn to slide 6 to discuss Clean Earth. Clean Earth also executed well in the quarter, although its financial results were impacted by sluggish project-related work and industrial volumes, much of which related to winter storms in the first quarter. These extreme weather conditions impacted our peers as well and were most pronounced in late January and then again in mid-March.

Now, please turn to slide 7 and our Rail business. Rail revenues totaled \$67 million and its adjusted EBITDA loss was \$1 million in the first quarter. Rail's Base business generated positive EBITDA in the quarter, exceeding our expectations. Its modest loss is attributed to overhead costs supporting its ETO contracts. The change in earnings year-over-year reflects higher contributions from contract and services work, which was offset by lower equipment volumes for which demand remains weak, as we've discussed in the past, and higher operating costs.

As with Nick, this will be my final earnings call with Enviri. It's been a pleasure working with Nick, our corporate team, and the business leaders within each of our divisions. Nick has led this company through its transformation, embedding strong values with a steady focus on improving the businesses and creating value. I'm proud of what this collective team has accomplished under his leadership. I've also greatly appreciated the support from our analysts, our shareholders, our banks, and our debt holders over the years.

Russell has been a key leader and a partner to me. And the company is in great hands as he takes over as CEO. I wish him, Pete, and the entire team the very best.

Now over to Pete.

Pete Minan - *Enviri Corp - Incoming Chief Financial Officer - New Enviri*

Thanks, Tom, and hello, everyone. First, let me say how excited I am to be back here at Enviri. The tremendous success of Clean Earth and the hard work by Nick, Tom, and the team to unlock the value in Enviri is truly remarkable. And I'm looking forward to continuing that success with New Enviri, working with Russell and the senior leadership team to improve margin growth, reduce volatility and risks at Rail, and help to drive cash flow and earnings growth.

So let me provide my perspective on the full year and next quarter outlook of New Enviri. In summary, and as Russell mentioned, our guidance for both Harsco Environmental and Rail, and therefore New Enviri, is unchanged for 2026.

HE's adjusted EBITDA range remains \$170 million to \$180 million, and Rail's EBITDA loss range remains \$19 million to \$26 million. As stated previously, these ranges translate to pro forma EBITDA of approximately \$140 million for New Enviri using the midpoint of each range. Our expectation for modest free cash flow during the year is also unchanged at the present time.

While Q1 results were stronger than expected, there is still significant amount of economic uncertainty. For Harsco Environmental, this uncertainty includes the geopolitical situation in the Middle East, where we maintain some operations. It's also unclear how higher energy prices will impact business conditions in Europe and globally in the coming quarters. In Rail, the demand for equipment continues to remain challenged, and we have not yet filled our order book for the year.

With that said, our EBITDA guidance for the second quarter can be found on slide 8. Harsco Environmental performance is expected to be comparable with the second quarter of 2025, while Rail's EBITDA is anticipated to decrease as a result of lower volumes.

I'll remind you that our financial reporting for the year will include a mix of Enviri and New Enviri. Once the sale of Clean Earth happens, it will be reported as a discontinued operation for financial reporting purposes. Also, corporate results will reflect that New Enviri will continue to support Clean Earth through a transition services agreement with Veolia for a period of time after closing.

Before I hand it back to the operator for Q&A, let me once again say how great it is to be with you all again. I came back to Enviri simply because I'm a firm believer in the value creation potential of Harsco Environmental and Rail, and I'm 100% aligned with Russell's priorities. I look forward to catching up with many of you and reporting on our progress in the upcoming quarters.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Rob Brown, Lake Street Capital Markets

Robert Brown - Lake Street Capital Markets LLC - Analyst

Good afternoon. I guess the first question is on the Rail business. I think you talked a little bit about the order book still needing to get filled. Could you give us some color on how the order book typically fills, and maybe the visibility that brings as it fills up?

Pete Minan - Enviri Corp - Incoming Chief Financial Officer - New Enviri

Yeah, this is Pete. Normally, we'd expect to see pretty much a proportionate, maybe even slightly more than proportionate order book by this time. So we're running a good bit behind. It's related to primarily OEM equipment in North America. Now, we expect it to come back a little bit in the second half of the year, but as of this point in time, we're a little bit behind what we historically see in terms of a filled order book relative to our estimated revenue for the new equipment.

Robert Brown - Lake Street Capital Markets LLC - Analyst

Okay. Thanks for the color there. And then also aftermarket, I think Russell mentioned that as an area of focus. I know it's -- could you remind us again how much of it is -- of your business is aftermarket and some of the things you could do there?

Pete Minan - *Enviri Corp - Incoming Chief Financial Officer - New Enviri*

Yeah. Roughly about 40% of our revenues is aftermarket, and that has been -- and we had a pretty good aftermarket in Q1. We expect that to continue at a similar pace in the rest of the year. That's clearly an area of focus for us because it not only is a kind of a good offset to the decline in OEM, but it also provides pretty good margins. It's got pretty much 2x the margins than the original equipment have. So that's the primary reason we're focusing on it.

Robert Brown - *Lake Street Capital Markets LLC - Analyst*

Thank you. I'll turn it over.

Operator

(Operator Instructions) This will conclude our question-and-answer session. I would like to turn the conference back over to Mr. Martin for any closing remarks. Please go ahead.

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

Thank you, Chuck, and thank you for everyone joining us this afternoon. Feel free to contact me with any follow-up questions. And as always, we appreciate your interest in Enviri, and have a great day. Take care.

Operator

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

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