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HSC - Q1 2019 Harsco Corp Earnings Call

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## PRESENTATION

**Operator**

Good morning. My name is Shelby, and I will be your conference facilitator. At this time, I would like to remind everyone -- welcome everyone to the Harsco Corporation First Quarter Release Conference Call. (Operator Instructions) Also, this telephone conference presentation and accompanying webcast made on behalf of Harsco Corporation are subject to copyright by Harsco Corporation and all rights are reserved. Harsco Corporation will be recording this teleconference. No other recordings or redistributions of this telephone conference by any other party are permitted without the expressed written consent of Harsco Corporation. Your participation indicates your agreement.

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

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**David Scott Martin** - *Harsco Corporation - Director of IR*

Thank you, Shelby, and welcome to everyone joining us this morning. I'm Dave Martin of Harsco. With me today is Nick Grasberger, our Chairman and Chief Executive Officer; as well as Pete Minan, Harsco's Senior Vice President and Chief Financial Officer.

We appreciate you joining us a bit earlier than normal today on this very exciting day for Harsco. This morning, we will discuss our 2 transactions, our results for the first quarter of 2019 and our outlook for the remainder of the year. We'll then take your questions.

Before our presentation, however, let me mention a few items. First, our 3 press releases that we issued this morning are available on our website. A slide presentation that we will be referencing on this call is also available on our website, and on Page 3 of that slide deck, you will see the agenda for today's call. Nick will provide a brief overview of earnings and then focus his remarks on the rationale of today's strategic announcements. He will also provide an overview of Clean Earth and its growth levers as well as discuss the attractiveness of its markets and its fits with Harsco. Pete will follow with comments on the synergy opportunities we see with the Clean Earth acquisition, some additional detail on the sale of Air-X-Changers, our pro forma financial overview and then conclude with a review of our earnings and our 2019 outlook.

Second, this call is being recorded and webcast. A replay will be available on our website later today.

Third, 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 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. 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 our earnings release today as well as the slide presentation.

With that being said, I'll turn the call over to Nick to begin his remarks.

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**F. Nicholas Grasberger** - *Harsco Corporation - Chairman President & CEO*

Thanks, everyone, for joining us a bit earlier on short notice.

I think it's fair to say that today is a transformational day for Harsco. So I will start with a few brief comments on our first quarter and improved outlook and spend somewhat more time discussing the transactions we announced earlier this morning.

Harsco delivered a strong start to 2019. Revenues for the first quarter increased 10% year-over-year, and our adjusted earnings improved 14%, near the high end of our guidance range. Due to the positive momentum that we are seeing in the business, particularly in Rail and Industrial, we have increased our adjusted operating income guidance range for the full year. Pete will review our results and outlook in more detail, however, I am pleased with our performance for the year. These results highlight the healthy demand across the end markets we serve as well as our ability to execute.

So let's discuss the transactions that we announced earlier. As outlined on Slide 4, we are taking a meaningful step towards reshaping our portfolio and moving towards a single investment thesis focused on environmental solutions for industrial markets.

So today, we announced 2 strategic transactions. First, we announced that we are acquiring Clean Earth, a leading specialty environmental services business that processes and treats waste streams in the U.S. Clean Earth operates in a complex regulatory environment related to contaminated and hazardous waste and has an attractive growth profile. We are paying a total consideration of $625 million in cash and have committed financing in place to fund the transaction.

This year, we expect Clean Earth's revenue to approximate $300 million with EBITDA of roughly $65 million. We see opportunities to realize about $10 million in annual run rate cost synergies by 2020 as well as revenue synergies given the complementary nature of the business alongside Metals & Minerals. So Clean Earth is a very compelling acquisition from both a financial and a strategic perspective.

Today, we also announced that we are divesting our Air-X-Changers business to Chart for about $600 million in cash. This is the first step as we will move to divest the other 2 smaller businesses in our Industrial segment, Patterson-Kelley and IKG. AXC is projected to generate revenues of about $275 million this year and EBITDA of $60 million.

Together, these 2 transactions accelerate our shift to an environmental solutions-focused company comprised of higher-growth businesses with enhanced margin profiles and reduced cyclicality. Ultimately, these transactions are aimed at optimizing our portfolio to drive value for shareholders.

So what led to this and why change the portfolio at this point? For many years, Harsco has been a diversified company in 3 primary industries: steel, rail and energy. Investor preferences continue to shift for a good reason towards businesses focused on a single thesis. Over the past 5 years, we realized we will need to make decisions about our portfolio in order to create greater value over the medium to longer term.

We also recognized that we had to improve our businesses before we could set up a successful reshaping of our portfolio. Everything we have done during the past 5 years has led us to this point. Most importantly, our leadership team, our culture and our business system have developed positively, leading directly to notable improvements in our key financial metrics and the consistent achievement of our financial targets. Each division has grown faster than its market over the past few years and steadily improved both profit margins and returns to double-digit levels. And we expect this trend to continue this year.

Overall, return on invested capital has more than doubled to about 15%, the balance sheet is healthy and our liquidity position is strong.

Now that we've achieved the goals that we set for ourselves over the past few years, we believe the time is right to embark on this next phase of our portfolio transformation. We are confident that the actions announced today will continue to build on this successful track record and drive greater shareholder value.

So why are we focusing on environmental solutions? At its core, our Metals & Minerals business provides environmental services to its global customer base in the steel and aluminum industries. Over 70% of M&M's revenue is derived from such services through managing, recycling and repurposing waste streams. We have made significant investments to grow M&M, mostly related to our capability to expand our offering of environmental solutions to meet customer needs. We are confident we can continue to grow M&M revenues by mid- to high single digits based on these investments and also our strong market position and the execution of our business system.

The 2018 acquisition of Altek was our initial move to enhance our environmental solutions offering in an industry adjacent to M&M. As you may recall, Altek provides a novel solution to dealing with the waste streams in the aluminum industry. Altek leverages M&M's global footprint and its expertise in on-site solutions to customers' environmental needs. Over the past year or so, we spent a considerable amount of time looking for other technologies and businesses with an environmental theme to add to our M&M segment. We are in various stages of analysis and pursuit of these opportunities.

We've also been focused on acquiring environmental businesses that provide complementary value drivers. Such acquisitions are consistent with our overall strategy to move our portfolio in a clear direction, enhance our competitive positioning and expertise and position Harsco to benefit from a more uniform platform of businesses over time.

Apart from a thematic fit with M&M, we focus on markets and businesses that are less cyclical, less capital intensive, have attractive organic growth rates, can be further scaled through M&A and have high barriers to entry, along with strong margins, cash flow and returns on capital. We believe Clean Earth is a perfect fit with these criteria.

We provided some detail on Clean Earth on Slides 5 through 9, and let me just focus on some of the highlights. Clean Earth is one of the largest specialty waste processing companies in the U.S. It provides remediation, disposal, recycling and beneficial reuse solutions for contaminated soil, dredged material and hazardous waste. And it serves multiple industries, including energy, infrastructure, commercial, industrial, retail and health care.

One of the things that attracted us to Clean Earth is their diverse base of over 6,000 customers and the long-term and recurring nature of their relationships.

As I noted earlier, given the highly complex regulatory environment in which they operate, Clean Earth's business has high barriers to entry. The company operates 27 permitted facilities, including 9 that are federally approved treatment facilities. Permits total about 220 across these sites.

In terms of financial performance, Clean Earth has produced above-market growth rates over the past several years and also improved margins and returns. The company has delivered organic average annual growth of -- sales growth of 7% from 2014 to 2018 and total revenue average growth per annum of 14%, also with strong margins, significant free cash flow generations and also acquisitions that have been successful both strategically and in financial terms.

In terms of future growth, the Clean Earth team has built a strong platform. The business is well positioned to take advantage of increasingly stringent regulatory trends towards avoiding landfills and incinerators and processing additional waste streams that are deemed contaminated or hazardous.

We expect to further add to the Clean Earth platform over time, both domestically and outside the U.S. Our global footprint in M&M should accommodate and accelerate the expansion, and we expect to realize cross-selling opportunities with our broad base of industrial customers over time.

Of equal importance, the Clean Earth management team is extraordinarily capable. They have built an organization that shares our values, and the cultural fit with Harsco is quite strong, which we believe will result in a seamless integration.

Let's turn to our divestiture of Air-X-Changers for a moment. I've been very pleased with the performance of our industrial businesses over the past several years. We expect the segment to produce record-high revenue profit and profit margins this year, led by the Air-X-Changers business. Its revenue is 3x higher in the trough of 3 years ago and profit of 6x higher than it was 3 years ago in the trough.

I'd also like to recognize and thank Industrial Group President Scott Gerson and his leadership team for delivering these results and creating extraordinary value for shareholders.

Each business within our Industrial segment has attractive margins and a strong competitive position within its respective market niche. Over the past few years, we have sought to identify opportunities to scale this segment but have not found the right opportunities to do so as part of the Harsco portfolio. Therefore, we made the determination that these businesses would be best suited to advance under new ownership committed to their growth and success. Exiting these businesses will also free up bandwidth and financial flexibility for us to focus on and further invest in our environmental solutions and rail businesses. It will also reduce our exposure to the cyclical energy markets.

With Chart, we have found an excellent partner for our AXC business and believe they will do great things. We are focused on a similar value-creating opportunity and outcome for IKG and PK.

Just a few comments on Harsco Rail. We are very excited about our Rail business given its growth prospects and demonstrated ability to create value. Following a few years of restructuring and difficult market conditions, the new leadership team at Harsco Rail has positioned the business to grow well beyond its previous peak due to new product innovations, expansion into new geographies and entry into the metro rail sector. The pipeline of opportunities has never been greater, and we expect double-digit revenue and profit growth this year. Over the next few years, we expect Harsco Rail to produce revenue and EBITDA of $500 million and $100 million, respectively.

I'll now turn the call over to Pete.

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**Peter Francis Minan** - *Harsco Corporation - Senior VP & CFO*

Thanks, Nick, and good morning, everyone. Let me start by echoing what Nick and Dave said. This is an exciting day for Harsco.

So I'll provide a bit more color about our 2 transactions and then hit the highlights of our first quarter results and outlook for the remainder of the year. So let me start with the financial impact of our acquisition of Clean Earth.

We expect Clean Earth to be accretive to EBITDA, adjusted operating income, margins and cash flow for the remainder of this year. Its earnings per share impact will be minimal in 2019 after considering the estimated impact of purchase price accounting. In 2020, our first full year of ownership, the transaction is expected to be accretive to earnings per share as well.

As Nick implied in his comments, the capture of significant synergies was not central to our investment thesis on Clean Earth. However, we expect the application of our Harsco business system to be beneficial to Clean Earth. And through our due diligence, we have identified several areas where the implementation of Harsco practices will provide cost-related synergies. These opportunities are within major support functions, including purchasing and procurements, finance and IT, to name a few. And as Nick mentioned, we expect to realize some commercial benefits as well following the full integration of Clean Earth. Right now, we are targeting annual pretax cost synergies of $10 million by the end of 2020.

Now let's turn to the sale of Air-X-Changers. As we've said before, Air-X-Changers has been a very high-performing business for us as capital investment has accelerated among its U.S. energy customers, and its energy output has increased in the U.S. It's also a business that has benefited from our investments in expanding its capacity and improving productivity. Air-X-Changers is a very well-managed business and its operating capabilities are unmatched within its industry. And these facts are evident in the $592 million sale price, which we believe reflects the strong operating profile of Air-X-Changers historically, the current industry cycle and the strength of its management team. There are no material contingencies to the sale of this business, and we expect to close in the next few months.

Our net cash proceeds are expected to approximate $470 million after tax and transaction fees. And we will use this cash to repay debt, consistent with our goal of maintaining a conservative capital structure and to give us financial flexibility to continue to make growth investments in our remaining businesses.

And as you would expect from such a divestiture, the sale of Air-X-Changers will be dilutive to earnings per share in the near term. Although as I mentioned, our primary objective in monetizing this business now is to strengthen our balance sheet, support our move towards a more focused environmental solutions company and to capture the value associated with its strong operating performance in the current industry cycle.

As Nick mentioned, we also plan to sell the remaining businesses within our Industrial segment in the not-too-distant future. Proceeds from the sale of these businesses, IKG and Patterson-Kelley, will also be used to strengthen our balance sheet and to help support investing in our core environmental solutions and rail businesses. Now these 2 industrial businesses are forecasted to generate a combined EBITDA of approximately $20 million to $22 million in 2019.

To summarize the pro forma effect of the Clean Earth and Air-X-Changers transactions, please turn to Slide 12, which provides an overview of Harsco before and after the Clean Earth acquisition and the sale of Air-X-Changers, assuming both were consummated at the beginning of this year.

The first point is, again, that following these transactions, our environmental solutions businesses will account for nearly 80% of Harsco revenue, which is clearly aligned with our go-forward strategy of positioning ourselves as a leading global provider of environmental solutions. Our EBITDA should be higher after the transactions, particularly after consideration of anticipated synergies. You can also see that the geographical distribution of sales will be changed very little in the short term.

Now beyond 2019, we expect our profile to change meaningfully given the organic growth potential of Clean Earth and the related potential M&A opportunities, both inside and outside the U.S. Also, given the sale of Air-X-Changers and the anticipated sale of the remaining industrial businesses, we'll be exiting some of our most cyclical businesses while investing in businesses like Clean Earth, which are considerably less cyclical.

Next, it's worth highlighting that Clean Earth is a capital-light, high-return business. Capital spending for this business is expected to approximate 2% to 2.5% of sales in 2019. And this percentage compares favorably to our Industrial and Metals & Minerals businesses.

Lastly on this slide, I'd like to again highlight and emphasize our commitment to a flexible and low-cost capital structure. Our leverage ratio at the end of Q1 was 1.8x, and we expect to be at a similar level at the end of this year after both of these transactions. Our target leverage ratio remains unchanged at 2x to 2.5x. As for the impact of these transactions on our long-term outlook, we will provide an update after these transactions are closed.

So let me close my remarks with a discussion of the first quarter results and 2019 outlook, which I will keep brief given the importance of the other exciting news today. So please turn to Slide 14 and our consolidated financial summary for the quarter.

Harsco's adjusted operating income in the first quarter was $42 million compared with the guidance range of $36 million to $43 million. And this total represented a 14% increase compared with operating income of $37 million in the first quarter of 2018.

Our earnings renew the upper end of our guidance range given strong performance in our Rail and Industrial businesses. Rail benefited from better volume and a more favorable mix of both equipment and aftermarket parts sales in the quarter, some of which was linked to timing between quarters. Meanwhile, in Industrial, volume and margin mix within our heat exchanger and grading businesses contributed to the very strong quarter.

Compared with the prior quarter, total revenues increased 10%. This improvement is net of foreign exchange translation headwinds of $18 million in the quarter. The revenue increase was driven primarily by the Industrial and Rail segments where sales increased 40% and 15%, respectively.

Adjusted operating income increased 14%, as mentioned earlier, and our operating margins rose to 9.3%. Improved demand within Rail and Industrial segments as well as a more favorable product sales mix in Rail drove the year-on-year improvement in earnings.

These positive factors offset the decrease in operating income for Metals & Minerals, which we had anticipated. M&M results were impacted by foreign exchange translation and SG&A investments to support our growth priorities as well as lower commodity prices and contributions from certain of our Applied Products businesses.

As we discussed a couple of months ago, these headwinds within M&M are expected to ease as the year progresses. We also expect the segment to realize additional benefits from our growth investments later in 2019. In that regard, you've likely seen a number of press releases from M&M during the year so far. Each of these announcements was related to a growth-related win for us, either at a new site or by adding a contract in an existing location. And these are only some of our most meaningful wins. There are others that we did not publicly announce. We're confident that our pipeline of growth opportunities is significant and will provide Harsco a runway to grow in the years ahead.

Turning to profits for the quarter. Our adjusted earnings per share was $0.29, representing a 32% increase versus last year's quarter. This result exceeded our guidance range of $0.20 to $0.26 due mainly to a lower-than-anticipated tax rate for the quarter.

There are a few unusual items in the first quarter. First, we incurred professional fees to support our corporate strategy and execute the 2 transactions we just discussed. Secondly, we incurred a portion of the anticipated costs related to the plant consolidation and productivity improvements in Rail that we discussed with you last quarter. And lastly, we incurred a noncash accounting gain related to a prior site exit in Metals & Minerals.

Free cash flow in the quarter was negative as expected and as traditionally is the case in the March quarter. However, our first quarter cash flow did in fact improve versus the prior year, and we expect that our free cash flow will continue to improve meaningfully for the remainder of the year as indicated by our guidance.

Lastly, on our balance sheet, our leverage position was little changed in the quarter at 1.8x EBITDA, and we ended the quarter with liquidity of $435 million.

Now let me turn to our updated 2019 outlook on Slide 15. First, note that the first quarter slide for each of our existing business segments has been moved to the appendix of the presentation. You will also find our full year guidance for each of the segments in the appendix as well. I don't plan to comment specifically on these slides, and we'll leave those materials to any follow-ups or Q&A.

Also please note that this outlook considers the current businesses within Harsco and does not consider the 2 transactions announced today. Once these transactions are completed, we plan to provide updated guidance within a reasonable amount of time.

So on Slide 15, let me highlight a few items. First, our full year adjusted operating income guidance has increased to a range of $207 million to $222 million. This compares with $200 million to $220 million previously. Likewise, our adjusted earnings per share is now projected to be between $1.35 and $1.53 per share as compared to a prior range of $1.29 to $1.47. These outlook changes are primarily driven by the Rail and Industrial segments where our visibility for the year has continued to improve. Our Rail backlogs were stable sequentially during the quarter and remain more than 100% higher than year ago levels.

In the end, we're confident that these businesses will perform better than forecasted previously. Our outlook for Metals & Minerals as well as corporate costs is unchanged. In M&M, we continue to expect that the segment's adjusted operating income will increase high single digits during the year. This improvement, as we've discussed previously, is projected to be second half weighted and will be driven by new contracts and higher steel demand as well as by Altek.

Next, our net capital spending plans for the year are unchanged at $170 million to $190 million, and this range continues to anticipate growth capital expenditures of approximately $80 million. As a result, the midpoint of our free cash flow and free cash flow before growth spending have increased to reflect the higher operating income guidance.

Let me conclude with our second quarter guidance on Slide 16, again, for our legacy businesses. In the second quarter, we expect operating income to be between $53 million and $58 million. This range compares favorably to adjusted operating income of $52 million in the second quarter of 2018. Earnings in M&M are expected to be comparable with the prior quarter, and results in both Rail and Industrial projected to be higher than the 2018 quarter. Lastly, corporate spending is forecast to be higher year-on-year due to professional fees and timing of growth investments.

So that concludes my prepared remarks. And at this point, I'll turn the call back to Nick for a few final comments before we take your questions.

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**F. Nicholas Grasberger** - *Harsco Corporation - Chairman President & CEO*

Thank you, Pete. Before I open the call for questions, I'd simply like to thank the 11,000 Harsco employees for helping us arrive at this transformative inflection point in our company's history. We have a clear direction, a strong sense of purpose and are excited about expanding our contributions to the global environment. The Harsco leadership team has never been more enthusiastic about Harsco's mission or confident in this future.

I'll now open the line for questions.

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## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) Your first question comes from Rob Brown of Lake Street Capital.

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**Robert Duncan Brown** - *Lake Street Capital Markets, LLC, Research Division - Senior Research Analyst*

Congratulations on a good quarter and a nice set of transactions. First, just wanted to maybe dive into the Clean Earth business a little bit. What's your view on the environmental services market? How sort of fragmented is it? What's the share of the Clean Earth business? And what sort of your -- I think you said organic growth of 7%, but how does that market look in terms of growth rates going forward?

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**F. Nicholas Grasberger** - *Harsco Corporation - Chairman President & CEO*

Well, it's a sizable market. It's about $4 billion -- or $5 billion in the U.S. Clean Earth has a quite good position in kind of the Northeast and Mid-Atlantic and some facilities in other geographies as well. We believe that there are a few larger players, but there are many midsized to smaller businesses as well that are more regionally based. Clean Earth over time, over the last 4 or 5 years, has executed a number of smaller transactions and integrated them quite well and certainly received significant benefits from doing so.

The organic growth rate that they realized of 7% or so, we think, is the appropriate rate to assume going forward. In fact, the higher rate of 14% overall, including acquisitions, we think, is also reasonable, perhaps even slightly higher. So we are quite bullish on this space. We're very confident that the combination of the Harsco team and the Clean Earth team will continue to drive growth above what we generally see in the U.S. economy, and we're anxious to get going.

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**Robert Duncan Brown** - *Lake Street Capital Markets, LLC, Research Division - Senior Research Analyst*

Okay. Great. And then maybe just the cyclicality of that business, what sort of the main drivers there. I would assume it's not very cyclical at all, but maybe just comment on the cyclicality of Clean Earth and environmental services?

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**F. Nicholas Grasberger** - *Harsco Corporation - Chairman President & CEO*

Yes. That's certainly was one of the areas of attraction for us. As we looked at the business through the past few U.S. economic downturns, the Clean Earth business held up really quite well, both in volume and a margin standpoint. So relative to Air-X-Changers, it's quite less cyclical. And again, that was one of our key criteria looking at businesses in this space.

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**Robert Duncan Brown** - *Lake Street Capital Markets, LLC, Research Division - Senior Research Analyst*

Yes. Okay. Then switching to the Rail business. You're seeing some nice growth there and you gave some pretty nice long-term targets. But maybe some depth on what's driving that growth, how you kind of see it playing out in the next few years and maybe kind of the international piece of that as well.

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**F. Nicholas Grasberger** - *Harsco Corporation - Chairman President & CEO*

Well, much of that growth that we're anticipating moving forward is based on initiatives that we've undertaken in terms of new innovation, new geographies. I mentioned the metro rail space, which historically we've really not been a player, and that's changing quickly. We also, this year, have seen some pent-up demand in North America. Many of the Class 1s had not been spending on maintenance equipment for some time, so we're seeing a nice bounce back in our North American business this year. And also aftermarket and our technology businesses are both growing at a very healthy double-digit rates. And so our outlook is more linked to initiatives that we've taken as opposed to the underlying growth rate in the market.

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**Robert Duncan Brown** - *Lake Street Capital Markets, LLC, Research Division - Senior Research Analyst*

Okay. Great. And then lastly, on Air-X, the business improved nicely. What's sort of the backlog picture there at this point? I know you're selling it, but what's the backlog picture there? And then maybe what was sort of the peak revenue in the past in that business?

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**F. Nicholas Grasberger** - *Harsco Corporation - Chairman President & CEO*

Well, the backlog is still quite strong year-over-year. It's declined a little bit quarter-over-quarter as we reached a new point in the cycle, but it's still close to its record-high backlog, a little bit less. In terms of -- yes, in terms of peak revenues, I believe they are $25 million to $50 million below kind of previous peak revenues. The margins are above where they were with peak revenues, but yes, I think we're still about $25 million, $50 million away.

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**Operator**

Your next question comes from Jeff Hammond of KeyBanc.

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**Jeffrey David Hammond** - *KeyBanc Capital Markets Inc., Research Division - MD & Equity Research Analyst*

Congrats on all these moves. It looks like really -- it really looks positive for the portfolio. Just -- can you just talk about the timing of the deals for when Air-X closes, when Clean Earth closes, when do you think IKG and Patterson-Kelley would come out?

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**F. Nicholas Grasberger** - *Harsco Corporation - Chairman President & CEO*

We expect both transactions, Clean Earth and Air-X-Changers, to close in the next few months. We don't see any regulatory hurdles, and we see a very clear path to closing in that time frame. In terms of IKG and PK, I think a reasonable estimate of closing those transactions would be late this year or early in 2020.

**Jeffrey David Hammond** - *KeyBanc Capital Markets Inc., Research Division - MD & Equity Research Analyst*

Okay. And then just on M&M, a little bit softer, I know there's been some production slowdown. How much of the softness you're seeing is production-related versus kind of Applied Products and pricing? And then just what gives you confidence given some of the production slowdown that you start to see steel output improve into the second half?

**F. Nicholas Grasberger** - *Harsco Corporation - Chairman President & CEO*

Yes. We really haven't, Jeff, been all that affected by production slowdowns at our customers. As Pete mentioned, the year-over-year challenge in Q1 for M&M was really linked to currency and SG&A investments. And I think we simply look at our backlogs for the remainder of the year. And our, as you know, existing longer-term contracts, I think, gives us pretty good visibility to the performance over the balance of the year. So we certainly do expect quarters 2, 3 and 4 on a year-over-year basis to be a good bit better than they were in Q1.

**Jeffrey David Hammond** - *KeyBanc Capital Markets Inc., Research Division - MD & Equity Research Analyst*

Is the SG&A investment front-end loaded and some -- that steps down into the second half?

**Peter Francis Minan** - *Harsco Corporation - Senior VP & CFO*

Yes, Jeff, this is Pete. The SG&A investment is to some degree front-end loaded, and more importantly, we're going to start seeing the benefits from ramp-ups of contracts and other growth that are benefiting from that investment. So it's a combination of the 2 factors. Plus I should point out that the second half, we anticipate some easing of some of the headwinds we face in terms of currency and commodity prices, which have been, as you saw and as I mentioned earlier, a big component of the year-on-year change for Metals in Q1. So all those factors together kind of gives us a pretty good feel for our ability to kind of hit the guidance for Metals through the rest of this year.

**Jeffrey David Hammond** - *KeyBanc Capital Markets Inc., Research Division - MD & Equity Research Analyst*

Okay. Great. And then just a couple of questions on Rail. One, there's been a lot of discussion about PSR, Precision Scheduled Railroading. Just talk about -- and it's created some consternation on kind of the outlook for other rail companies. But just talk about how that does or does not impact you. And then just -- I think you mentioned the $500 million revenue target, does that -- all core growth or does that include some M&A?

**F. Nicholas Grasberger** - *Harsco Corporation - Chairman President & CEO*

Yes. On the first question, Jeff, many of the new products that we're introducing really address the trends in the rail industry in a very positive way. So we believe that our product portfolio is shifting in a way that -- really in line with what our customers are looking for to address those industry trends. And those products, by the way, as they've been introduced in the last quarter or so, have been very well received and certainly are a component of our attractive long-term outlook on the equipment side in Rail.

**Peter Francis Minan** - *Harsco Corporation - Senior VP & CFO*

With respect to long-term outlook, the $500 million that we mentioned earlier and that we published, that's all organic, Jeff. That does not anticipate any M&A growth.

**Jeffrey David Hammond** - *KeyBanc Capital Markets Inc., Research Division - MD & Equity Research Analyst*

Okay. Great. And then just last one. Maybe -- I know you had some long-term targets out there and maybe those have changed with the change in complexion of the portfolio, but just talk about as you look forward long term what you think the core growth rate of the new coke could be, where you think ROIC targets could be 3 years out when you get some of these synergies. That would be helpful.

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**F. Nicholas Grasberger** - *Harsco Corporation - Chairman President & CEO*

Yes. Well, first of all, our long-term view on M&M and Rail has not changed. That is consistent with what we discussed recently. We also noted that the underlying growth rates in Clean Earth and in the industrial waste industry are certainly higher than what we see in our businesses in the Industrial segment. So clearly, over time, we would expect organic growth rates to outperform those of what we're divesting. We also believe that there's more runway for bolt-on acquisitions or even moderate-size acquisitions in the industrial waste space. So I think you're going to see pretty high total growth rates from us in this new segment over time. In terms of ROIC, I kind of hesitate to put a target out there at this point. I think as Pete noted, when we -- when these transactions close within a few months, we will update our long-range targets, including that for ROIC.

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**Peter Francis Minan** - *Harsco Corporation - Senior VP & CFO*

The only thing I'd add to that, Jeff, is when you look at the Clean Earth business and compare it to what we're exiting, I mentioned in my script that it was -- it's a very capital-wide, high-margin business. We're talking margins that are going to be -- the EBITDA margins are going to be mid- to high 20s. So we're looking at a profile that has the potential to generate the kinds of ROIC that kind of incrementally would be favorable to what we had published before. Now you got to weigh that against the investments so it'll take time to get there, but that's how we're looking at it.

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**Jeffrey David Hammond** - *KeyBanc Capital Markets Inc., Research Division - MD & Equity Research Analyst*

If I can just sneak one more in, just on Clean Earth around cyclicality. Can you just maybe enhance the discussion on that? What produces the cyclicality of that? If you look at kind of past slowdowns or recessions, how did it perform?

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**F. Nicholas Grasberger** - *Harsco Corporation - Chairman President & CEO*

Well, first of all, as we discussed, it's actually a quite diverse business in terms of the industries that it serves and the different processes that they undertake. And so -- and there's a tremendous amount of backlog of contaminated material and hazardous waste. So we believe that even in an economic downturn -- and this has been demonstrated by Clean Earth over the past few downturns, their volumes have been quite steady, and obviously, over time, they've been growing quite nicely. So I certainly wouldn't say it's recession proof, but it's recession resistant.

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**Peter Francis Minan** - *Harsco Corporation - Senior VP & CFO*

Yes. The only thing I'd add to that, Jeff, is that the business is roughly split between kind of hazardous waste, which is the regulatory -- the waste that's regulatory required to be disposed of in a certain manner. So that really is kind of not cyclical at all. It needs to be dealt with and it's pretty consistent regardless of where we are in the cycle. The other half of their business is actually largely tied to long-term infrastructure spend. So it's actually -- we're providing the disposal processing for major government-sponsored infrastructure projects, which, again, while not totally immune to the cycle, certainly react much less volatile-y against that. So that's really what the 2 major drivers for Clean Earth in terms of the cycle.

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**Operator**

(Operator Instructions) Your next question comes from Chris Sakai of Singular Research.

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**Joichi Sakai** - *Singular Research, LLC - Equity Research Analyst*

I just wanted to ask about -- I guess what are some competitors of Clean Earth?

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**F. Nicholas Grasberger** - *Harsco Corporation - Chairman President & CEO*

Well, there are a few public companies, US Ecology would be one, Clean Harbors to some degree, Waste Management to a lesser degree. There are a number of medium to smaller-sized privately held businesses that tend to have more regional footprints.

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**Joichi Sakai** - *Singular Research, LLC - Equity Research Analyst*

Okay. And then does Clean Earth operate outside the U.S.?

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**F. Nicholas Grasberger** - *Harsco Corporation - Chairman President & CEO*

It does not.

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**Joichi Sakai** - *Singular Research, LLC - Equity Research Analyst*

Can you disclose, I guess, in the future, for the rest in 2019 and beyond, will Harsco look to make acquisitions similar to this that operate globally?

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**F. Nicholas Grasberger** - *Harsco Corporation - Chairman President & CEO*

That certainly is quite possible. It's an industry generally that does not cross borders well because of the quite different regulatory issues on a country-by-country basis. But yes, given our global footprint and our Metals & Minerals business operating in 35 countries, we certainly expect over time, whether through acquisition or just expanding organically and leveraging M&M's footprint, we would expect to have more of a presence managing industrial waste outside the U.S.

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**Operator**

(Operator Instructions) Scott Blumenthal of Emerald Advisers has a question.

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**Scott Benjamin Blumenthal** - *Emerald Research - Senior Research Analyst*

Yes, congratulations on the quarter. Nick, can you talk a little bit about the Clean Earth facilities? I know the press release talked about treating and documenting and recycling. Are they landfills? Are they incinerators? Are they neither?

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**F. Nicholas Grasberger** - *Harsco Corporation - Chairman President & CEO*

They are neither. Their processing facilities tends to be a chemical or a physical process to change the nature of the hazardous or contaminated material for it to be reused or ultimately disposed of.

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**Scott Benjamin Blumenthal** - *Emerald Research - Senior Research Analyst*

Okay. And I believe you did mention that it's a very, very low CapEx business. So I guess the costs associated with operating the business is the purchase of chemicals and things like that in order to, I guess, do this processing on the materials.

**F. Nicholas Grasberger** - *Harsco Corporation - Chairman President & CEO*

Yes. That's correct.

**Scott Benjamin Blumenthal** - *Emerald Research - Senior Research Analyst*

Is there a contractual relationship with many or most of the customers? And then I guess on the other side, you may need relationships with incinerators or landfills. Or am I mistaken there?

**F. Nicholas Grasberger** - *Harsco Corporation - Chairman President & CEO*

No. You're correct on both cases. The contracts, though, tend not to be as long in duration as you might imagine as they are in the M&M business.

**Scott Benjamin Blumenthal** - *Emerald Research - Senior Research Analyst*

Okay. Do you have any statistics as to the duration of the contracts? Or are we still a little bit too early for that?

**F. Nicholas Grasberger** - *Harsco Corporation - Chairman President & CEO*

I don't have that at my fingertips, Scott.

**Operator**

(Operator Instructions) There are no other questions in queue. I'll turn it back over to Dave Martin for any closing remarks.

**David Scott Martin** - *Harsco Corporation - Director of IR*

Thank you for joining us this morning. A replay of this call will be available later today through May 23, and the replay details are included in our earnings release. Also, please contact me with any follow-up questions using the contact details at the top of today's releases. Again, we appreciate your interest in Harsco and look forward to speaking with you in the future. Have a great day.

**Operator**

This concludes today's conference call. You may now disconnect.

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