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NVRI.N - Q1 2025 Enviri Corp Earnings Call

EVENT DATE/TIME: MAY 01, 2025 / 1:00PM GMT

## CORPORATE PARTICIPANTS

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

**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

**Larry Solow** *CJS Securities - Analyst*

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

**Davis Baynton** *BMO Capital Markets - Analyst*

## PRESENTATION

### Operator

Good morning. My name is Cindy, and I will be your conference facilitator. At this time, I would like to welcome everyone to the Enviri Corporation first-quarter 2025 release conference call.

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

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

Thank you, Cindy, and welcome to everyone joining us this morning. With me today is Nick Grasberger, our Chairman and Chief Executive Officer; and Tom Vadaketh, our Senior Vice President and Chief Financial Officer.

This morning, we will discuss the results for the first quarter and our outlook for the year. We'll then take your questions. Before our presentation, let me mention a few items. First, our quarterly 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 materially from these forward-looking statements.

For a discussion of such risk 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 the GAAP results is included in the earnings release and the slide presentation.

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

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

Thank you, Dave, and good morning, everyone. We delivered another solid quarter and saw mostly consistent execution in each of our segments. Clean Earth once again was a standout performer and delivered double-digit earnings growth. Despite challenging conditions in the global steel market, Harsco Environmental also performed well, exceeding our internal expectations in the quarter.

For Rail, Q1 financial results were soft as anticipated. However, we were able to successfully renegotiate one of our major ETO contracts, and the segment continued to advance its operating agenda while building its backlog.

Key highlights for the quarter include our two environmental segments performed well with revenues and adjusted earnings essentially unchanged on an organic basis, despite the impact of site closures and exits in Harsco Environmental. Second, Clean Earth delivered a record first quarter results.

Third, cash flow was ahead of expectations, adding further support to full year cash flow guidance of \$30 million to \$50 million. And finally, we, during the quarter completed the rebuild of the Rail leadership team with the new President and the new CFO.

Before turning to our segments, let me comment briefly on tariffs and recent global trade developments. As you know, we have a diverse group of businesses operating across many end markets and geographies. So many benefits and challenges can be expected. For example, our operations in Mexico and Canada may be impacted by US tariffs, while recent actions by the EU to support its steel industry are much needed and potentially helpful to our business in that region.

We recognize the significant level of macroeconomic uncertainty driven by the ongoing global trade issues and are mindful that this may potentially lead to slower economic activity and demand. But overall, we currently do not believe that the direct tariff impact on Enviri will be material. And we have not yet seen a meaningful shift in the underlying business or customer behavior. Nonetheless, we will continue to closely monitor the situation.

Now turning to each of our businesses starting with Clean Earth. CE's margins grew by over 100 basis points and exceeded 16% in the quarter. Our Clean Earth team continues to do a remarkable job executing against its strategic priorities with a focus on expanding service capabilities and business growth, as well as its industry leading customer service.

The investments we've made in commercial resources are beginning to bear fruit. CE's business pipeline is very robust and its revenue growth in the first quarter included a good balance of price and volume, a shift we were expecting to see.

Operational excellence also remains a focus, and we anticipate productivity improvements in the future for our ongoing investments in a common IT platform. Overall, the outlook for Clean Earth's earnings, margins, and free cash flow in the coming years is positive, outpacing that of our other segments and tracking ahead of the financial targets we established for the business at our analyst day last June.

Turning to Harsco Environmental, the business is managing well through a difficult period in the global steel industry, which is marked by excess capacity and diminished demand in major-steel consuming regions around the world. Steel prices have recovered, and customer profitability has improved in recent months. We have not yet seen an improvement in volumes or any efforts to restart idle capacity.

Trade protections that attempt to deal with excess steelmaking capacity in China and its steel exports are welcome. These protections are needed most in Europe, which is our largest market, and we're hopeful that recent actions by the EU are the beginning of positive change for our customers in that region.

In recent years, US dollar strength has been a headwind for HE, so recent dollar weakness is a potential tailwind for this business. Roughly 80% of HE's revenues are generated outside the US. As a result, dollar strength has negatively impacted HE's revenues in EBITDA by roughly \$100 million and \$25 million over the past three years.

Given these pressures, HE has been aggressively managing its capital spending, implementing cost reductions, and executing other improvement programs at our sites. These efforts have positioned HE well and will enable the segment to maintain underlying profitability this year and support cash flow while we await a recovery in the global steel market.

Moving to Harsco Rail, demand for our standard equipment, parts, and adjacent services remains strong, as does the outlook for Rail's base business. Healthy orders in the first quarter illustrate the strength of this business.

Highlighting recent progress with our ETO contracts, we're pleased to have successfully amended our contract with Deutsche Bahn. We've been working on the amendment for a few quarters. Under this contract and collaboration with our customer, prototype development and testing are going well. Our technology continues to satisfy our customer requirements, and we expect to begin product homologation with this customer later this year. In short, the future risk on this contract has been diminished.

As we said before, chief among the challenges in Rail are a few ETO contracts which weigh in our consolidated earnings and cash flow. This amendment is a positive step forward and will continue to work with DB and our other ETO customers to reduce the risk related to these contracts.

We're also pleased to have strengthened our Rail leadership team with the appointment of Gary Lada as our new President of Rail. Gary brings considerable rail industry experience and importantly a proven track record of operational excellence at various industrial companies as well as leading large ETO projects.

We've also hired new leaders in finance and operations in recent months. The team is focused on executing a number of key priorities, including removing the bottlenecks in our operations, managing our supply chain, and advancing our ETO contracts.

Turning to our 2025 outlook, we've maintained our guidance for the full year. Our organic growth in the year will be driven by Clean Earth, while HE's performance is expected to be stable on a like-for-like basis. This is an important transition year for the company's cash flow, and we expect lower net outflows on our Rail contracts as well as lower pension contributions to help us generate positive cash flow.

In future years, we anticipate earnings growth, and the completion of the ETO contracts and Rail will position us to generate annual free cash flow of \$150 million on a consistent basis. As we communicated during our analyst day last June.

I'll now turn the call over to Tom.

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

Thanks, Nick, and good morning, everyone. We're pleased with the positive start of the year, with our Q1 performance exceeding our expectations for both adjusted EBITDA and free cash flow. Both Harsco Environmental and Clean Earth executed well in a less-than-ideal environment, which contributed to the better financial results. Also in Harsco Rail, as Nick has just said, we amended our large engineered to order or ETO contract with Deutsche Bahn that we've been working towards for a number of quarters. This amendment led to a favorable accounting adjustment in the quarter, and I'll come back to this impact in a bit.

We're keeping our outlook for the year intact. While there is a tremendous amount of economic uncertainty currently, the direct net impact of US tariffs and other trade actions globally are expected to be minimal for Enviri. The recent US dollar weakness meanwhile is helpful to Harsco Environmental and the company. This positive, along with our favorable start in Q1, provides us some cushion against economic volatility in the coming quarters. Now let me turn to our first quarter performance details starting on slide 4.

In the first quarter, revenues totaled \$548 million which was down approximately 4% on an organic basis after adjusting for the impact of FX translation and business divestitures, as well as contract adjustments in Rail. Adjusted EBITDA was \$67 million with our year-over-year comparisons skewed by negative FX and divestiture impacts of \$7 million.

Relative to guidance, Harsco Environmental benefited from better service and product volumes in certain regions, including North America, India, and the Middle East. HE's strong operational execution also contributed to the strong quarter. Clean Earth faced some weather headwinds, particularly in the Northeast during the quarter, which were offset by strong performance in the final two months of the quarter.

Our adjusted diluted loss per share was \$0.18 for the quarter, excluding the impact of special items. These special items included a favorable amount in Rail, totaling \$11 million as a result of the contract amendment with Deutsche Bahn. This amendment provides us additional revenue under the contract and a new delivery schedule which lowers anticipated penalties among other impacts. Our remaining special item charges in the quarter relating to project and restructuring costs totaled approximately \$5 million.

Lastly, on this slide, our adjusted free cash flow for the quarter was negative \$13 million. Q1 is traditionally a weak cash flow period for the company. With that said, we are focused on delivering our cash flow targets and perform better than planned in the quarter, mainly in HE.

Compared with the prior year quarter, our free cash flow was little changed, as the benefits of lower pension contributions, reduced capital spending, and the utilization of an additional \$10 million under our accounts receivable facility were offset by divestitures and lower cash earnings. Now please turn to slide 5 and our Harsco Environmental segments.

Segment revenues totaled \$243 million and adjusted EBITDA totaled \$39 million. The year-over-year change in earnings is the result of lower volumes due to site exits and closures, as well as FX impacts and divestitures. These items were partially offset by operating initiatives, including our efforts to improve performance at a limited number of underperforming locations.

On a same store or continuing site basis, steel production at our customer locations declined less than 1% compared with the prior year, while our service volumes and earnings at these sites were up slightly year over year. Relative to the first quarter of 2024, steel production was weakest in Asia, the Middle East, and Latin America, with this impact offset by higher volumes in India and Europe.

Operating rates or production rates at our customer sites in Q1 remained low and were little changed from Q4. And while customer production levels did improve somewhat late in the quarter, we don't anticipate volumes on average improving in the second quarter. Higher steel prices globally have yet to translate into higher steel output, but HE's operating leverage remains significant and it is poised to benefit when volumes recover.

On US steel tariffs and related trade actions elsewhere, the direct impacts are mixed and likely not material as we currently view the situation which Nick mentioned earlier. Next, please turn to slide 6 to discuss Clean Earth.

For the quarter, revenues totaled \$235 million and adjusted EBITDA reached \$38 million. EBITDA increased by 12%, supported by revenue growth of 4%, and this result is a first quarter record for CE. Price and volume contributed equally to the revenue increase, and Clean Earth's earnings growth is attributable to these factors as well as cost efficiencies.

The volume gains were driven by retail and healthcare within hazardous materials, as well as higher soil dredge throughput. Hazardous materials revenues increased 3% to \$198 million while soil-dredge sales rose 9% to \$37 million. Now, please turn to slide 7 and our Rail business.

Rail revenues totaled \$70 million and it's adjusted EBITDA loss was \$2 million in the fourth quarter. This was in line with our expectations for the quarter, with a year-over-year EBITDA change due to lower product and service volumes, as well as the less favorable mix. As Nick mentioned, we continue to strengthen our Rail team and address the operational and supply chain challenges faced by this business. We're looking forward to having Gary Lada join us.

In Rail finance, I brought in a new leader, someone that is hard charging and who I've worked with successfully in the past. I'm confident his contributions will be significant. On our engineered to order contracts, the Deutsche Bahn amendment mentioned earlier is a key milestone that we are pleased to have completed. We continue to assess levers to limit our financial risk and exposures on these contracts.

Moving to the base business, demand for Rail's standard equipment and services remains healthy with strong bookings in the first quarter. As we've said before, the base business in Rail is a valuable part of our portfolio. It's a profitable cash generative business with a strong reputation in the marketplace. Now let me turn to our full year outlook on slide 8.

Our revenue and EBITDA guidance for the year is unchanged for the company and each of our segments. Company EBITDA is expected to be within a range of \$305 million to \$325 million. And free cash flow is projected to be \$30 million to \$50 million.

As mentioned earlier, we likely have some upside from our strong Q1 performance and a weaker US dollar if sustained. However, given the current economic uncertainty, like most other companies, our visibility into the second half of the year is limited. So while we believe it's appropriate for us to continue to give guidance, we also believe it's prudent to keep it unchanged.

Let me conclude on slide 9 with our second quarter guidance. Q2 adjusted EBITDA is expected to range from \$65 million to \$75 million. This range reflects what we know today and a stable global economy. HE results are expected to be below the prior quarter, reflecting primarily the impact of divestitures, site closures, and exits. And HE's performance should be similar to the just completed quarter. Clean Earth performance is projected to improve year over year due to price and volumes.

And for Rail, adjusted earnings are anticipated to be similar to Q1. Our full year outlook for Rail reflects an operational improvement and higher throughputs in the second half of the year. Lastly, on Q2, we expect free cash flow to be negative as some of our favorability in Q1 becomes a use of cash in the current quarter.

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

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Larry Solow, CJS Securities.

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### Larry Solow - CJS Securities - Analyst

Great, good morning and thanks for taking the questions. I guess first question just on the largest segment, obviously, environmental. It sounds like you're leaving -- you are leaving guidance basically unchanged. I guess you just run us through some of the puts and takes, I guess not a big impact -- direct impact from tariffs.

What are your thoughts kind of on steel production and the economy going forward. I guess that's sort of a bad guy for you, but the offset there would be the currency benefit. Can you kind of just give us your sort of high-level view on environmental and what your volume -- what you're incorporating for volume projections this year.

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

Yeah, hi, Larry. I guess my first comment would be that when you say HE is our largest segment, Clean Earth is kind of right on top of it now in terms of profitability and certainly generates more cash flow and revenue is about the same. So it's -- that has been shifting the last several quarters and we're basically there at the moment. So anyway.

Yeah, so in HE, I -- we expect a little bit of volume growth the rest of the year. The comps to last year are relatively favorable for us. You mentioned the benefits of currency. We also have a number of efficiency and cost reduction programs that when added to a bit of volume growth will mitigate the impact of site shutdowns and exits last year.

But I think that the wave of site shutdowns in the second half of last year, we think is over. And so, and we saw that in the first quarter where the business very much performed as we expected it to when there were no significant customer surprises.

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### Larry Solow - CJS Securities - Analyst

Got it. And on Clean Earth, sounds like things are still going very well there. What are your sort of assumptions as you go forward this year? Sounds like you're still getting some price. How do you view volume, hazardous waste in the -- with the economic drop -- the backdrop the way it is today. Are you concerned of a slowdown? What are your customers telling you? Clearly you're mostly domestic, right? You're all domestic, but do any of your customers have international exposure which may impact them and then be a kind of indirect impact to you?

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

Well, first of all, I'd say that more so than the past couple of years, we're looking for volume to be a larger contributor to earnings growth this year. We saw a bit of that in the first quarter. We have reasonable visibility to that in the second quarter. And so that's -- you know, as we move forward relative to how we've generated significant EBITDA growth the past two or three years, you know, volume and you know, we'll play a bigger role as well as what we expect to be significant benefits from what we call the One Clean Earth IT initiative, which focuses on order to invoice.

We've not yet seen a slowdown yet. Oftentimes our soils business is sometimes an early indicator of a downturn in the economy because many of the projects that are in our backlog don't start and get deferred. We haven't seen that yet. So that's to say across Clean Earth and each of the components, there's really no signs yet that the economy is slowing, that our customers are being more cautious and are cutting back production, or consumers are limiting their spending. We haven't seen that yet. But of course, we're concerned about it. We've not built it into our into our guidance those concerns we feel that we have levers at our disposal to enable us to mitigate the impact of a slowdown and still achieve our numbers for the year, but at this point that's not an assumption that we're making.

**Operator**

Rob Brown, Lake Street Capital Markets.

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

Hi, good morning. I just wanted to follow up on the Rail ETO contract renegotiation that know you risk has come way down. What's sort of the remaining risk there and I guess what's the status of the other contract that you're working on improving?

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

Yeah, just, hi Robert, it's Tom Vadaketh. I can speak a little bit to that. So the -- I touched on it briefly in my prepared remarks, but the essence of the amendment, it recognizes some of the cost inflation that we've experienced, and the customer has agreed to offset that on for us with higher revenue, higher pricing effectively on the vehicles we have to deliver. And then we also mutually agreed on a new delivery schedule, which is a lot more realistic and therefore reduces the risk of future penalties for being late.

In terms of remaining risk, it's sort of what we've talked before. For all of these long-term, very highly complicated engineering projects, until the first one or two vehicles is produced, it's tested under regulations in the country where we're delivering it to and the customer has accepted it until that happens there's always a risk that we need to go back and tweak the design and that sort of thing.

In this particular case the customer and us have been sitting side by side as we've built the vehicle. The very first one is built and it's being commissioned right now. We'll go start going through the testing later on in the year. And so at this point, we feel fairly comfortable that the risks are minimal, but the larger part of them remain until that testing process or what is called homologation is completed, which will be towards the middle to Q3 or so of next year.

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

Okay, great. And then on the Clean Earth's business, you had good margin expansion. I guess how sustainable is that and I guess how much further can you get with these CIT improvements that you're working on?

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

Well, as you've seen, we've been steadily improving margins in Clean Earth for three years or so. The X factor in a given quarter oftentimes is the mix within our soil and dredge projects. And so you can get a little bit of noise quarter to quarter driven by that. But we, I think last year at the Analyst Day, we kind of projected margins, EBITDA margins for Clean Earth at 17% or so by 2027 and we're certainly tracking ahead of that. And even though we've not kind of officially updated our view on margin potential, I think it's safe to say that we now expect margins in Clean Earth over time to be above that 17%.

I think it's also important to keep in mind, we said this before, that if you compare the Clean Earth EBITDA margins to others in the industry, we're a few points lower, but we do not have those capital-intensive disposal assets that our peers have. So if you look at EBITDA minus CapEx margins, we compare favorably.

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

Rob, are you there still?

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

Cindy, you can move on.

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**Operator**

(Operator Instructions) Davis Baynton, BMO Capital Markets.

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**Davis Baynton** - *BMO Capital Markets - Analyst*

Hi, good morning. This is Davis on for Devin Dodge. So you've noted some of the pressure in the steel industry coming from that excess capacity. I know you touched on this a bit, but just wondering if you could expand on that a little bit and maybe what you're seeing in some of the underlying markets early on following the closure of Q1. Any changes there?

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

Well as you know, the excess capacity in the steel industry, driven by that of China has been a factor in this industry for many years at this point. And we are seeing encouraging signs that would mitigate the impact of that, primarily in the EU, which as we've said is our largest market. So that should have an impact on our customer profitability.

It doesn't really, of course, impact demand for steel. And so we've not yet seen a lift. We are expecting capacity utilization at our sites to be a bit higher this year and volume growth to be a little bit up against a fairly easy comparative second half of 2024. But I think it's fair to say that what we've seen in the first quarter and what we expect in the second quarter is largely what we expected, which is fairly flat volume growth driven by lackluster demand for steel.

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

I'll just build on that, and Nick touched on it on an earlier answer to another question. But when we look at the makeup of the profile for the year. On HE we are expecting a stronger second half than the first half. What's underpinning that is, as Nick said, we don't assume a change in the macro environments. We assume that's going to stay about the same in terms of volumes, et cetera.

But we have several new sites that we're bringing on that will ramp up. We have a more favorable compare year on year because we exited those other sites in the second half of last year. And then - and so we expect that to drive additional revenue and EBITDA. And then we have operational improvements. So procurement initiatives, operational excellence initiatives that will also increase margins in the second half. And so that's how we see that business progressing this year.

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**Davis Baynton** - *BMO Capital Markets - Analyst*

Okay, got it, thank you. I appreciate the color there. And then - so solid results in Clean Earth business continues to progress nicely. So you noted a lot of that is from better pricing and volumes, but also some efficiency initiatives as well. Are most of those efficiency initiatives due to the IT improvement or is there anything else that you can call out there?

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

No, we continue to gain efficiency from how we're routing the material that we that we handle inbound and outbound. We're also gaining efficiency from how we're disposing of some of the waste, finding lower cost outlets and executing some further processing that enables us to avoid the more costly disposal options. So yeah, it's broad based.

I think going forward, let's say in 2026, when this One Clean Earth initiative is mostly behind us, we expect that to drive pretty significant efficiencies in our SG&A structure. But I think we continue to be pleasantly surprised by margin enhancement opportunities.

And we're not yet reaching that point of kind of diminishing returns on margin growth potential. And that's very encouraging. I won't say we're just getting started because we've had three years of this, but we're certainly not in the later innings, I'll put it that way, of realizing margin growth opportunities in Clean Earth.

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**Davis Baynton** - *BMO Capital Markets - Analyst*

Awesome thank you appreciate that. That's it from me. I'll turn it over.

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**Operator**

This concludes our question-and-answer session. I would like to turn the conference back over to David Martin for any closing remarks.

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

Thank you, Cindy, and thanks for everyone joining us this morning. Feel free to contact me with any follow-up questions. We appreciate your interest in Enviri and look forward to speaking with many of you in the coming weeks. Thank you.

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**Operator**

The conference has now ended. You may please disconnect. Thank you.

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