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Q1 2024 Enviri Corp Earnings Call

EVENT DATE/TIME: MAY 02, 2024 / 1:00PM GMT

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PRESENTATION

Operator

Good morning. My name is Jason, and I will be your conference facilitator. At this time, I would like to welcome everyone to the Enviri Corporation First Quarter 2024 Release Conference Call. (Operator Instructions)

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

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

Thank you, Jason, 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 our results for the first quarter and our outlook for the remainder of the year. We'll then take your questions. Before our presentation, let me mention a few items. First, our earnings release and slide presentation for this call are available on our website.

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

Lastly, on the 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 as well as the slide presentation.

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

F. Nicholas Grasberger ***Enviri Corporation - Chairman, President & CEO***

Thank you, Dave, and good morning, everyone. Q1 was a strong start to 2024 as each of our three segments performed above our expectations in terms of both cash flow and adjusted EBITDA.

Consolidated EBITDA increased about 20% versus Q1 of last year while the EBITDA margin improved nearly 150 basis points to 13%. Of note, [Clean Earth's EBITDA Margin exceeded 15%] (added by company after the call). That's 3 points higher than the last year's figure and 3x the figure in Q1 of 2022. In terms of our outlook for the full year, our updated guidance reflects about a 5% improvement in the underlying performance of the Clean Earth and Harsco Environmental segments compared to our previous guidance.

Our primary focus from a financial standpoint continues to be improving cash flow and reducing leverage. We expect cash flow from our

3 segments to improve by $40 million to $50 million this year, including the Rail business with the CE and HE segments each generating in excess of $100 million for the first time. When combined with the expected double-digit increase in cash earnings, leverage should approach 3.85x at year-end, but we are pushing to reduce it further to 3.75.

The Board and management continue to focus on levers to create shareholder value. Enviri's cash earnings are at the highest level in the last decade. And our environmental businesses are more stable with more upside potential than those in our portfolio a decade ago. Nonetheless, our degree of financial leverage is higher than we would like in this economic and interest rate environment.

So besides continuing to grow our businesses and improve our cash flow yield, we are considering other means to reduce leverage through sales of assets and businesses. At this time, we are targeting to generate $50 million to $75 million of cash from such disposals this year and our leverage goal continues to be below 3x.

Turning to a discussion on our 2 environmental businesses, which comprise about 95% of the EBITDA from our 3 segments. In Harsco Environmental, volume growth of 6% in mill services was consistent with expectations while pricing was a bit better. Ecoproduct volumes and profits were also up.

The impact of a stronger U.S. dollar partially offset the better operational performance. And these currency headwinds will likely be more of a challenge over the remainder of the year than we expected a few months ago. Overall, I'm pleased with the improved demand for our services and products as well as our execution and expect HE to deliver a solid year of underlying earnings and cash flow growth.

In Clean Earth, higher volumes and lower costs in the haz waste business drove the favorable EBITDA and cash flow variance versus our previous expectation. The retail and health care markets performed relatively better than the industrial market while the soil and dredge business met expectations.

CE's leadership team also continues to reduce cost in the business. And as a result, we've improved our EBITDA and cash flow outlook for the full year and now expect cash earnings to be up by a mid- to high-teens percentage over what was a very strong 2023.

We look forward to hosting a Clean Earth-focused Investor Day here in Philadelphia on June 20. Jeff Beswick and his team will highlight our strategy and key initiatives and provide an updated financial outlook for the next few years.

As noted in our press release, we have decided to pause our divestiture process for Harsco Rail and reconsolidate the business into our financial statements. While there was strong interest from many potential buyers, the risk associated with a few large European contracts proved to be a barrier to completing the divestiture with attractive terms for shareholders at this time. We believe the risk on these contracts has been largely recognized. And the ongoing negotiations with customers should result in favorable adjustments.

Overall, the core of Harsco Rail is performing quite well. And the divestiture remains both a strategic and a financial objective for the company. In our view, the value of the business has not changed. Once the European contracts stabilize and the associated risk is clearly reduced, we believe this will be an attractive business.

I'll now turn the call over to Tom.

Thomas G. Vadaketh ***Enviri Corporation - Senior VP & CFO***

Thanks, Nick, and good morning, everyone. As stated in our press release and by Nick just now, our results now include Harsco Rail within continuing operations and my prepared remarks mirror that presentation.

The Enviri team delivered a strong first quarter of 2024. Revenues grew 7%, adjusted EBITDA grew nearly 3x that rate. Our cash flow was slightly better than anticipated. And our covenant leverage ratio decreased modestly.

Now let me comment on our first quarter performance, starting on Slide 4. In the first quarter, revenues from continuing operations increased to $600 million, again up 7% compared with the prior year quarter. Adjusted EBITDA totaled $78 million, an improvement of

19% from the prior year.

Each of our three business segments delivered higher revenues and higher EBIT -- higher adjusted EBITDA versus the prior year, driven by a combination of price, volume growth and cost initiatives. Also, corporate costs were comparable with the prior year quarter.

This EBITDA figure isn't comparable to our prior guidance due to the inclusion of Rail. But both Clean Earth and Harsco Environmental exceeded our expectations in the quarter due to higher volumes, a more favorable service mix and lower operating costs, driven by initiatives in Clean Earth. Our adjusted loss per share was $0.03 for the quarter.

Free cash flow for the quarter was a negative $17 million versus a positive $16 million in the prior year quarter. The year-on-year change in free cash flow can be mainly attributed to the amount and timing of incentive compensation payments in Q1 this year but which occurred in Q2 in 2023 as well as working capital movements.

Please turn to Slide 5 and our Harsco Environmental segment. Segment revenues totaled $299 million, up 9% compared with the prior year quarter. Adjusted EBITDA for the quarter reached $49 million, representing an increase of over $5 million versus Q1 2023. Relative to the prior year quarter, HE benefited from higher services and Ecoproducts volumes as well as higher pricing. The positive items were partially offset by currency impacts and higher labor costs to support our revenue base.

Next, please turn to Slide 6 to discuss Clean Earth. For the quarter, revenues totaled $226 million, up 2% versus the prior year. And adjusted EBITDA reached $34 million, which is a Q1 record for the business and was up 25% versus the prior year. The year-on-year increase in revenues of 2% was driven by price. Volumes were mixed as anticipated against a very difficult comparison quarter in 2023 that was marked by higher project volumes, which were not expected to repeat at those levels.

Higher health care volumes in Q1 2024 were offset by other verticals. Our retail volumes, for example, were down a bit because of less project work relative to the prior year quarter. Industrial was also down slightly for similar reasons. Despite these puts and takes, we believe underlying demand remains stable to improving. Hazardous materials revenues reached $192 million while soil/dredge revenues totaled $34 million for the quarter.

Clean Earth's adjusted EBITDA increased 25% year-on-year, driven by pricing and efficiency initiatives. The net result was an adjusted EBITDA margin of 15.1% in Q1, a quarterly record for CE and is a testament to the effort of our employees and the improvements the team continues to drive to strengthen the business. This margin is in line with our strategic goal when we acquired and created the Clean Earth business a few years ago and we are confident that we will continue to see further margin growth over the next few years.

Now please turn to Slide 7 and our Rail business. Rail revenues totaled $75 million and adjusted EBITDA totaled $2 million in the first quarter, which is seasonally a weak quarter for the business. Revenues were higher year-on-year while adjusted EBITDA was similar to the prior year.

As we have discussed in prior quarters, the Rail business includes a few large, long-term engineered-to-order, or ETO, projects where, generally speaking, we are contracted to deliver highly customized equipment to our customer on a fixed price basis. Some of these contracts are loss-making for which we have taken forward loss charges in the past. Accordingly, as we make progress on these ETO projects going forward, the Rail results each quarter will include ETO-related revenue with little gross profit impact.

The Rail revenue for Q1 2024 included approximately $14 million of ETO-related revenue. The remainder of the Rail business or base Rail business delivered revenue of $61 million. Compared with the 2023 quarter, higher equipment and services volumes were offset by lower aftermarket demand and a less favorable business mix.

Now let me turn to our updated 2024 outlook on Slide 8. Harsco's full year adjusted EBITDA is expected to be within a range of $325 million to $342 million, which is up approximately 9% year-on-year at the midpoint versus 2023. This range is not comparable to our February guidance as it now includes forecasts for Harsco Rail.

With that said, our expectation for HE and CE together on a comparable basis is consistent with prior guidance, driven by an improvement in underlying performance in both businesses. More specifically, our outlook for CE is increased to reflect greater visibility and lower operating costs. And this impact is offset by HE.

For HE, expectations for underlying operating results and year-on-year growth are also up. However, our outlook now reflects the sale on April 1 of Performix, a small downstream metallurgical additives business that sat within HE. This impacts our EBITDA outlook for the remainder of the year by approximately $3 million. Also, the U.S. dollar strengthening versus a handful of currencies is leading to an FX translation headwind of nearly $10 million compared to our prior guidance.

For Rail, we are expecting adjusted EBITDA within a range of $18 million to $20 million on revenues in excess of $300 million for the year. This EBITDA range now includes a $4 million allocation of corporate costs. We see potential upside to this range for Rail if we can fill the order book for the base business later in the year and execute successfully on our ETO contracts. Our detailed segment outlook can be found in the appendix of the presentation.

Our EBITDA range translates to adjusted per share guidance of between $0.12 and a loss of $0.09. Lastly, we are now targeting adjusted free cash flow of $10 million to $30 million. We continue to see cash flows from CE and HE increasing roughly $30 million year-on-year.

The change to our free cash flow guidance is attributable to Rail, which wasn't included previously. For Rail, we expect its non-ETO cash flows to be positive in 2024. ETO-related cash flows will be negative in 2024 as we build the equipment to be delivered under these long-term contracts.

We expect overall free cash flow for the Rail business to be less negative in 2024 than in 2023. Importantly, we believe Rail is at an inflection point on its ETO contracts and related cash flows as these contracts are set to mature or conclude. We anticipate Rail cash flows will improve in 2024. And we're optimistic that its total cash flows will turn positive in 2025.

Let me move on to Slide 9 with our second quarter guidance. Q2 adjusted EBITDA is expected to range from $78 million to $85 million. Harsco Environmental EBITDA is anticipated to decline versus Q2 of 2023. Lower product volumes, currency impacts and the sale of Performix will contribute to this change.

Clean Earth EBITDA is expected to be modestly above the prior year quarter despite a tough comp from 2023. Here, higher prices, volumes and cost improvements are expected to offset the positive impact of $6 million from the Stericycle settlement in the prior year quarter. And Rail EBITDA is projected to increase year-on-year due to higher standard equipment and technology volumes.

And lastly, I'd note that free cash flow in Q2 is anticipated to improve modestly from Q1. And as is traditionally the case, the majority of the company's annual cash flow is expected in the second half of the year.

Finally, let me touch briefly on our balance sheet, starting with the fact that both of our credit rating agencies upgraded our credit outlook recently. We were pleased to see these changes. As I mentioned earlier, our covenant leverage improved slightly this quarter as we continued our focus on improving the balance sheet.

In Q1, we sold our two aircraft, generating some incremental cash flow. The gain on the sale is treated as a special item within our Q1 earnings. And the disposal will also reduce ongoing corporate overhead expenses. We have recently monetized the remainder of a notes receivable related to the sale of our IKG business, which was sold a few years ago. This cash was received in Q2.

And finally, on April 1, we sold a small downstream business within HE, our Performix metallurgical additives business, which will also help lower our debt. We will continue to take actions to improve the balance sheet.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Rob Brown from Lake Street Capital Markets.

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

Nice progress in the quarter. Just wanted to follow up with Clean Earth, some of the volume trends there. I think they were sort of mixed. How do you see the volume trends playing out over the next 12 to 18 months? Does it continue to be sort of a mixed situation? Or are there some sort of macro improvements that can happen there?

F. Nicholas Grasberger ***Enviri Corporation - Chairman, President & CEO***

Yes, I think the volume outlook for Clean Earth certainly varies by end market. But overall, we don't expect to see much volume growth this year, given a lot of churn and some other headwinds. What's driving Clean Earth is really price/cost efficiency and also mix. We're seeing better mix both in hazardous waste as well as in the soil and dredge business. But in general, we expect the manufacturing/industrial segment and the health care segments to be a bit better from a volume standpoint than retail this year.

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

Okay, great. And then on the Rail business, the ETO contracts that are playing out, how much is to go on those contracts? And when will those fully be concluded and kind of more clear, where you can have more comfort in where those stand?

F. Nicholas Grasberger ***Enviri Corporation - Chairman, President & CEO***

Yes, many of them will actually be delivered this year. And we'll receive the cash later in the year. There are two large contracts in Europe, one in the U.K., one in Germany that still have a couple of years to run. Now as I mentioned in my remarks, as did Tom, we've in Q4 taken some additional charges against those contracts. We believe that, that is largely behind us. And we're looking forward to, over the next year or so, demonstrating that the risk clearly is reduced and we've taken the necessary charges.

I also mentioned that we continue to negotiate commercial terms with the German customer, whereby we anticipate a price increase to be afforded to the contract that should serve to offset some of those previous charges that we've taken.

Operator

The next question comes from Larry Solow from CJS Securities.

Lawrence Scott Solow ***CJS Securities, Inc. - MD of Research***

I guess, Nick, picking up kind of on that line of questioning, just on the Rail business, so I think you said about $20 million EBITDA this year. What is -- I think if we go back a few years back, I remember this business was thought that it could be, I think, at least $50 million, maybe even higher than that in terms of EBITDA.

What's sort of the -- can you kind of bring us up to speed what you think this business could do in 3 years from now or some type of horizon, when we get beyond kind of some of these contract issues and whatnot? And if you can just help us kind of with the sort of multiyear outlook, that would be great.

F. Nicholas Grasberger ***Enviri Corporation - Chairman, President & CEO***

Yes. Well, if you exclude the impact of these engineered-to-order contracts, we believe the base business, say, everything else, and Harsco Rail generates $35 million to $40 million of EBITDA, we expect those ETO contracts to roll off here in the next few years. So think of the base business as 35% to 40%, which is consistent with where it's been in the last 6 or 7 years, I would say. We're back to the kind of pre-COVID level of profitability in the base business.

We've seen good demand in North America both for equipment. We've seen good demand and very good performance on our part in contracted services and then aftermarket and technology as well. So we also look at some of the stimulus money in North America that's been allocated towards rail infrastructure. We think that's a tailwind for us. And our competitive position in North America and elsewhere is quite strong. So at our Investor Day on June 20, we'll provide an updated long-term view for each of our businesses. So I'd ask you to wait until then to understand our longer-term view for Rail.

Lawrence Scott Solow ***CJS Securities, Inc. - MD of Research***

Yes, no, absolutely. And I look forward to the Analyst Day, too -- Investor Day, too. No, that's great. Okay, I guess, just a question, just switching gears, just to Clean Earth and just on your guidance, you mentioned kind of flat volumes, all-in a little bit better on the health care and industrial side.

What about just on the dredging side? I know your bookings were really strong last year on the soil side. What are you kind of -- what's in your guidance for this year in terms of sales or growth or however you can frame that?

F. Nicholas Grasberger ***Enviri Corporation - Chairman, President & CEO***

Yes. I think in terms of soil and dredge, what's helping the business more than volume now is mix. We have a fairly strong pipeline of higher-margin projects. Volume overall is fairly flat. I think the higher interest rate environment is certainly contributing to some of these projects being put on hold. But overall, the mix, the price and some of the cost initiatives are really helping to continue to grow the earnings in the business.

But it's not being driven by volume, at least not at the moment. As we've said before, the visibility that we have just when some of these projects start is not as good as we'd like. So it's certainly conceivable as it was last year, where some of these projects began that we had not expected to start. And that helped the business.

Operator

The next question comes from Brian Butler from Stifel.

Brian Joseph Butler ***Stifel, Nicolaus & Company, Incorporated, Research Division - Research Analyst***

Tom, just the first one, just back to Rail real quick, so on that 35% to 40% of EBITDA in the base business, what does the cash flow look like from that piece of it?

Thomas G. Vadaketh ***Enviri Corporation - Senior VP & CFO***

I mean, the conversion is pretty good, Brian, on the base part of the business. Obviously, you have to contend with the normal puts and calls when customers pay you, et cetera. But generally speaking, it converts pretty nicely. So the capital expenditure is fairly modest in that business, maybe mid-single digits on average, and so most of that turns into cash.

Brian Joseph Butler ***Stifel, Nicolaus & Company, Incorporated, Research Division - Research Analyst***

Okay, great. And when you think about now in continuing operations and you're reducing the risk, do you guys need to wait until these contracts kind of come to completion before you reconsider possibly putting us back on the market? Or is it just you need to show that the risk has been reduced?

F. Nicholas Grasberger ***Enviri Corporation - Chairman, President & CEO***

I think that it's the latter. As I mentioned, we took some charges in the fourth quarter not that long ago, of course. And even though we believe that the vast majority of the risk has now been accounted for, I think we need several quarters of stability on those contracts as well as completing the commercial negotiations with Deutsche Bahn. I think when those two things happen, and it could happen later this year, then we will rethink the timing of again marketing the business.

Brian Joseph Butler ***Stifel, Nicolaus & Company, Incorporated, Research Division - Research Analyst***

Okay. And then one just on Clean Earth, nice quarter there. How much of an impact was January weather on the quarter?

F. Nicholas Grasberger ***Enviri Corporation - Chairman, President & CEO***

It affected our soil and dredge business a bit, I guess, as well as Haz. I wouldn't say it was that material. Again, it was more of a challenge than we thought. But of course, we were still able to deliver a better quarter than we expected.

Brian Joseph Butler ***Stifel, Nicolaus & Company, Incorporated, Research Division - Research Analyst***

All right. Then maybe I'll slip one last one in on Harsco Environmental. When you look at steel production versus your February guidance, has there been any increase or change in expectations around kind of a global steel outlook?

F. Nicholas Grasberger ***Enviri Corporation - Chairman, President & CEO***

No, Brian, there has not. So I think we expect 6% to 7% volume growth in the mill services business this year. Probably 4 points of that or so is the market and the balance would be the impact of new contracts. So no, the outlook has really not changed.

Operator

Our next question comes from Davis Baynton from BMO Capital Markets.

Davis Robert Baynton ***BMO Capital Markets Equity Research - Associate***

This is Davis on for Devin Dodge. So some solid results in Harsco Environmental and Clean Earth. But just wondering if you could speak to some of the internal deleveraging efforts with the Rail sale being on pause?

F. Nicholas Grasberger ***Enviri Corporation - Chairman, President & CEO***

Sure. So as I mentioned, we are looking at some other smaller businesses within the portfolio. We're looking at some assets that we can dispose of. And these are not new initiatives. But I would say the degree of focus on them has stepped up a bit with the reconsolidation of Rail.

So we've seen -- you'll see some of that in the second quarter. And then in the back half of the year, I think you'll see some other transactions that, as I estimated in my remarks, we think will total $50 million to $75 million of incremental cash. I'll turn it over...

Thomas G. Vadaketh ***Enviri Corporation - Senior VP & CFO***

And if I just -- I'll just take it and add to that. I covered it in my prepared remarks. But we've already, as Nick said, made progress, and I listed a few things. So we sold our planes. That generated some cash in Q1. And then in Q2, we'll have the proceeds from the Performix sale as well as we monetized a notes receivable for an amount. So by the end of Q2, we would've already kind of made pretty good progress towards the target that Nick just mentioned.

Operator

There are no more questions in the queue. This concludes our question-and-answer session. I would like to turn the conference back over to you, David Martin, for any closing remarks.

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

Thank you, everyone, for joining us this morning. Feel free to reach out to me with any additional questions. And as always, we appreciate your interest in Enviri, and have a great day. Thank you.

Operator

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